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Politics this week

Sep 9th 2004
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After the horror

EPA

Russians struggled to come to terms with the horror of the **Beslan school massacre**, in which at least 330 people, mostly children, died. President Vladimir Putin vowed to be tough and not to negotiate with Chechen terrorists, and later set a $10m price on the heads of two Chechens, Shamil Basayev, who may have masterminded Beslan, and Aslan Maskhadov, a former Chechen president. Mr Maskhadov's followers then offered $20m for Mr Putin.

See article

Nicolas Sarkozy, the French finance minister, announced that he would run for the leadership of the ruling UMP party, after winning the endorsement of President Jacques Chirac. But Mr Chirac still seemed keen to stop Mr Sarkozy becoming president at the next election in 2007.

See article

Another state election, another appalling performance by **Germany's Social Democrats** (SPD). In the Saarland, once a party stronghold, the SPD share of the vote tumbled to only 31%. Minority parties did unexpectedly well.

See article

Turkey's hopes of opening negotiations to join the European Union received a boost when the relevant European commissioner, Germany's Günter Verheugen, made encouraging statements on a visit to Ankara. But his Dutch colleague, Frits Bolkestein, suggested that Turkish entry would be a disaster for the Union.

See article

Veracruz to victory

In a close, three-way election, **Mexico's** opposition Institutional Revolutionary Party claimed that it had won the governorship of Veracruz, the country's third-largest state.

See article

At least 20 people were reported killed as Hurricane Ivan smashed through the south-eastern **Caribbean**. Grenada was worst hit; 85% of its houses were said to be damaged.

See article

Two academics claimed to have found statistical evidence of fraud in last month's recall referendum in **Venezuela**, in which Hugo Chávez defeated an opposition attempt to strip him of the presidency.

In **Peru**, thousands of administrative workers ignored a government deadline to return to work, continuing a two-month strike that has paralysed the country's courts.

The Bank of Canada raised its benchmark interest rate by 25 basis points to 2¼%. The rise was expected by the markets. **Canada's** economy has recovered strongly from a slowdown last year, growing at an annualised rate of 4.3% in the second quarter.

Clinton's heartache

Reuters

Bill Clinton began recuperating after a quadruple heart-bypass. The 58-year-old former president was admitted to hospital after complaining of chest pains.

With his party convention over, **George Bush** hit the campaign trail in the final phase of America's presidential election. Some polls showed him ten points ahead; most gave him a much slimmer lead.

See article

Florida suffered its second major destructive storm in less than a month. **Hurricane Frances** tore through the Sunshine State and its southern neighbours, leaving around 20 people dead in its wake.

The Congressional Budget Office estimated that the **federal budget deficit** for the current fiscal year (which ends on September 30th) will be $422 billion, or 3.6% of America's GDP. The number-crunchers also projected a total deficit for the next ten years of $2.3 trillion.

Another bombing

AFP

A bomb exploded outside Australia's embassy in Jakarta, killing at least 8 people, and denting the **Indonesian** government's claim to have hurt Islamic terrorist groups.

See article

South Korea admitted secretly extracting a small amount of plutonium in the 1980s. Last week, it revealed that its scientists had enriched uranium four years ago.

Afghanistan's presidential election campaign got under way. The poll, to be contested by 18 candidates will be held on October 9th.

See article

The foreign ministers of **India** and **Pakistan** met in Delhi, for the first formal ministerial talks since an attack on the Indian parliament in December 2001. Little concrete progress was recorded, but more talks are planned.

See article

Anwar Ibrahim, a former deputy prime minister of Malaysia, won the right to appeal against a conviction for corruption. If he wins the appeal, which will be heard next week, he would be eligible to return to politics immediately. His conviction for sodomy was overturned by the appeals court last week.

The rising cost

By mid-week, more than 1,000 American troops had died in **Iraq** since the onset of hostilities in March last year. The death toll of Americans in August was the highest since April. A shaky truce between the caretaker government of Iyad Allawi and the firebrand Shia cleric, Muqtada al-Sadr, held in Najaf, the Shias' holiest city, but not in Sadr City, the Shia slums of north-eastern Baghdad.

See article

Italy sent a special envoy to Iraq to seek to negotiate the release of two female Italian aid workers who had been kidnapped. Two French journalists have still not been released.

Israel's prime minister, Ariel Sharon, agreed to change the path of the security barrier that cuts through the Palestinian West Bank. The new route would be closer to the line that divided the territories after the war of 1967, while still looping round big Jewish settlements in the West Bank.

Police in **Zimbabwe** arrested Lovemore Madhuku, the head of a group that campaigns for civil liberties. Last week they had stopped him organising a rally against a new bill aimed at suppressing non-governmental organisations. Earlier this year they beat him and left him for dead.

Gunmen seized three hostages in the **Ugandan** water ministry to protest against President Yoweri Museveni's rumoured plan to change the constitution to allow himself a third term in office. Security forces stormed the building, freed the hostages and arrested the gunmen, without casualties.

South African prosecutors withdrew charges, on the day he was due in court, against Johan Meyer, an engineer who had been accused of illegally making and selling machinery to enrich uranium that might have been sold abroad to make nuclear bombs. The next day, two other men were arrested.

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Business this week

Sep 9th 2004
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Increased investments

The **French life-insurance** industry bowed to pressure from the finance minister, Nicolas Sarkozy, and agreed to increase its investments in non-listed companies and small businesses to *euro*20 billion ($24.3 billion) by 2007, from *euro*14 billion now.

Banco Santander Central Hispano got a boost when Mario Monti, the European Union's competition commissioner, praised the Spanish bank's bid for Britain's **Abbey** as a step towards “a more integrated financial-services market”. The commission is now thought likely to approve the £8.3 billion ($14.8 billion) bid by September 17th.

Not friends of Frank

An American judge sentenced **Frank Quattrone**, a former CSFB banker, to 18 months in jail for telling employees to destroy documents during a probe into the allocation of shares in initial public offerings. Mr Quattrone was also fined $90,000.

American regulators reached a $450m tentative settlement with two sister mutual funds, **AIM Advisors** and **Invesco**, which were accused of letting favoured investors trade rapidly during the day, to the detriment of long-term fund investors.

OPEC president Purnomo Yusgiantoro said **crude oil** supplies exceed demand by about 1.5m barrels per day (b/d). But he did not rule out raising OPEC's 26m b/d production ceiling at the cartel's next meeting on September 15th.

Russian tax authorities presented **Yukos** with a larger-than-expected $4.1 billion bill for back taxes for 2001 and began to collect the bulk of it without waiting for a court order. The oil company now owes $7.5 billion in total, with further tax claims expected.

After five years of negotiations, EU regulators began circulating a draft of a deal with **Coca-Cola** which would require the firm to share up to a fifth of its refrigerator space with rivals such as **PepsiCo.**

The **BBC**, Britain's public-service broadcaster, said it is talking to Time Warner, Walt Disney and Germany's Bertelsmann about the possible disposal of its sales and publishing arm, BBC Worldwide. The broadcaster believes the unit could fetch up to £2 billion ($3.6 billion).

The Italian government made a legal move towards privatising 5-10% of **RAI** television early next year. But no single investor will be able to buy more than 1%, and if the government retains more than 90% of the broadcaster, minority shareholders will have no say over RAI's board.

Italian jobs

Alitalia continued to run out of cash as it begged its unions to let it cut 5,000 jobs from its workforce of 20,700 and get rid of loss-making ground-service operations such as maintenance and bookings. The unions called on the Italian government to intervene, and the European Union hinted it might support the national carrier's bail-out.

Ryanair said it will pay a fine of approximately *euro*4.5m ($5.5m), imposed by the EU for illegal

subsidies the Irish airline received from Charleroi airport in Belgium since 2000. It also hinted it wants to hire pilots laid off from Alitalia.

US Airways, which is seeking almost $300m in annual concessions from its pilots, said it will appeal directly to them after their union refused to put the proposal to a vote. Meanwhile, **Delta Air Lines** said it will cut up to 7,000 jobs over 18 months and close its Dallas/Fort Worth hub. The company is struggling to avoid bankruptcy.

British Airways said it would sell its 18.25% stake in Australian carrier **Qantas** in order to pay some of its £5.6 billion ($10 billion) debt. BA hopes to raise at least A$1.1 billion ($763m) from the sale.

Toyota Motor said it would invest $461m to make Camry saloons at its joint-venture in China. Toyota has 3% of the Chinese car market, compared with 25% for Volkswagen and 11% for General Motors.

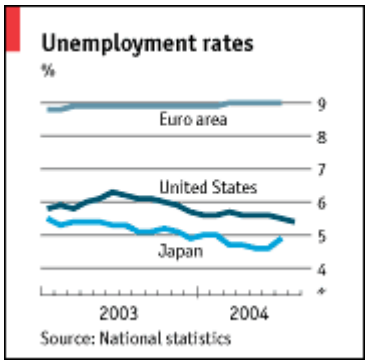
Ford reached an agreement with management and unions in its Land Rover division that would allow its assembly plant in Solihull, England to stay open.

See article

Alan speaks

In congressional testimony, Alan Greenspan, chairman of America's Federal Reserve, said **economic growth** is on track, but warned that rising budget deficits could increase interest rates and squeeze out private investment. This could lead to high inflation and low growth—stagflation.

The **American** economy created 144,000 new non-farm jobs in August, most of them in services. The unemployment rate edged down to 5.4% in August from 5.5% in July, though this was mainly because the labour force shrank by 150,000 during the month.



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After Beslan

Russia's horror

Sep 9th 2004
From The Economist print edition

Nobody should excuse what happened in Beslan—but Chechnya still needs a solution

Get article background

EPA

“THEY have declared war on us,” said one Russian television anchorman as he began his report on the massacre in Beslan. And indeed, the terrorists who devastated a school and its hostages on September 3rd wrought carnage of proportions usually seen only in wartime: the death toll, in what is only a small town, may exceed 500.

Even wars are rarely this cruel. They have rules, sort of, one of which is to avoid harming civilians where possible, and especially children. The terrorists in Beslan deliberately went for the most innocent and defenceless targets; they timed their attack, on the first day of the school year, to catch the maximum number; they tortured their small captives by refusing them all food and water; and when one of the explosives they had rigged in the school gymnasium went off, apparently by accident, they shot fleeing hostages in the back before blowing the building apart. If this were war, such bestial, inhuman acts would richly deserve the name of war crimes.

Errors and omissions

The world should recognise and affirm that. Yet it is also important to draw other lessons from Beslan. One is that the Russian security forces made mistakes that may have cost many lives. They had not established how many hostages or terrorists there were, they did too little to secure the area and bring in emergency services, they even allowed armed civilians to join the siege. That may have forced their hand when the terrorist bomb exploded (see article).

Just a week earlier, the blowing-up of two Russian airliners by suicide bombers had made little difference to government policies or to Russians' lives, besides a perfunctory increase in identity checks on passengers arriving at Moscow airports from the south of Russia. Beslan, however, has shaken the country's leadership to the core. “This is a total, cruel and full-scale war that again and again is taking the lives of our fellow citizens,” said Vladimir Putin, Russia's president.

The language of war can unify a nation. Like George Bush, who declared “war on terror” after September 11th, Mr Putin is putting his country on a war footing. He has promised “measures aimed at strengthening our country's unity”, better co-ordination of forces in the northern Caucasus, and “entirely new approaches to the way the law-enforcement agencies work.” And, as before, he has striven to link Russia's problems to America's: “What we are facing is direct intervention of international terror directed against Russia.” In effect, he wants “9/3” to be seen as Russia's 9/11.

But that is disingenuous, and may even be dangerous. The verified links between Chechen terrorists and al-Qaeda are few and tenuous. Intelligence sources doubt that the “Islambouli Brigades” that claimed responsibility for the two aircraft bombings last month actually did the deed. The Russians claim that ten of the hostage-takers in Beslan may have been Arabs, but no proof has been offered besides indistinct pictures and some sounds that just might be Arabic. All the signs are that the mastermind was Shamil Basayev, a Chechen who has organised a series of terrorist attacks, including on a hospital in Budyennovsk in 1995 and a theatre in Moscow in 2002.

Governments that go to war have a duty not only to win, but also to stop future ones breaking out. And that means understanding their root causes—which is not at all to imply excusing or condoning them. Stressing the Chechens' links with al-Qaeda lets Mr Putin wriggle out of acknowledging that America's and Russia's terrorist threats are more different than they are alike. Al-Qaeda's *jihad* is the product of complex circumstances, in many countries, in which America's foreign policy was only one contributory factor.

Russia's conflict in Chechnya is home-grown, nurtured in a republic that has been systematically destroyed in the struggle for power. Russia has tried to wipe out Chechnya's separatists, first through direct military force, and more recently through “Chechenisation”—ie, foisting the problem on to a local strongman (the latest luckless candidate, Alu Alkhanov, was put in place in rigged elections only two weeks ago). But the result has been to breed an anarchy in which soldiers and separatists alike kidnap and murder the innocent with impunity.

Crackdowns on rebels hiding in neighbouring republics have simply spread the lawlessness. The Beslan raiders included not just Chechens but Ingush and other northern Caucasians. Their evil deeds may now revive the old conflict between mainly Christian Ossetians and mainly Muslim Ingush. “Chechenisation” was meant to contain Chechnya; now it threatens to engulf the region. Yet Mr Basayev's Islamic fundamentalism is borrowed from abroad; it would attract few sympathisers were it not for the misery created at home.

Mr Putin said after Beslan that “we showed ourselves to be weak, and the weak get beaten.” The implication is that he will now be even tougher in Chechnya. Not only is that likely to stir up more terrorism; it also ignores one of the conflict's main drivers, which is cash. It suits certain Chechens, particularly the Kadyrov clan that now in effect controls the republic, to keep the war going, in large part because they make money out of it. It suits many in Moscow who connive at and benefit from the corruption, smuggling and worse in Chechnya. And it suits some Russian commanders and law-enforcement bosses who get their cut from Chechen oil wells, arms sales and the bribes that everyone—terrorists included—pays to get through the checkpoints that dot the northern Caucasus.

Part of the solution in Chechnya must be to break today's nexus of perverse incentives that do so much to keep the war going. That means not ever-tougher controls on the whole population, in a vain attempt to root out terrorists, but starting at last to tackle the top-to-bottom corruption that makes a joke of existing controls. Mr Putin seems sometimes to recognise that his armed forces are part of the problem, but his preferred solution still seems to be to impose control, through a Chechen placeman, rather than try a new approach.

What should that approach be? Ultimately, extreme autonomy, possibly leading to properly negotiated independence, should not be ruled out, if that is what most Chechens want. But right now, most just want peace. Simply making the republic independent would not only reward terror; it would not work, as Chechnya is too shattered to function on its own. Pulling the troops out would leave a bandit state, worse than the one that operated in 1996-99. Yet throughout the conflict, Mr Putin has refused to talk to moderate Chechens. Potential interlocutors have either turned extreme or lost support. Moreover, when Mr Putin calls Chechnya an “international” problem, he is right—though not in the way he claims. Ask Muslims around the world what aggrieves them, and they will mention Iraq, Afghanistan, Israel/Palestine, even headscarves in French schools...and Chechnya. Russia's conflict may not have started with foreign terrorists, but it has given them fodder for their own trouble-making.

That also gives western leaders an interest in helping to end it. One thing they must do is to keep telling the truth. They should offer sympathy and assistance to the Russians as victims of terrorism, not least in better training for their security forces. But even after Beslan, they should not condone Russia's human-rights abuses in Chechnya, and they should urge Mr Putin to seek out moderates with whom to talk. Perhaps after an interval, they might look for a more active involvement in the northern Caucasus. Russia has reached a dead end in Chechnya; if western offers of peacekeepers, human-rights monitors, financial or other assistance can help it to back out again, they would be well worth making.

Mr Putin will resist outside “interference”. But the Russians need help in Chechnya. And the one thing more tragic even than September 3rd would be if Budyennovsk, Moscow and now Beslan keep happening, over and over again.

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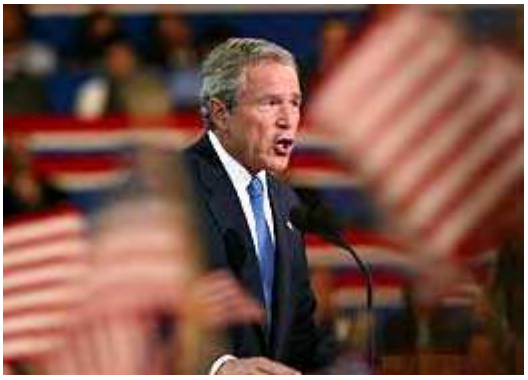
George Bush's apparent comeback

Nice ideas; now pay for them

Sep 9th 2004
From The Economist print edition

A good convention for the Republicans, but some important details were missing

AP



WITH one bound he was free? Well, not exactly. George Bush's double-digit lead over John Kerry in a couple of opinion polls released last weekend, after the Republican convention, seems to have been a blip; our own YouGov survey shows him only one point ahead among registered voters. All the same, if you look at the underlying figures for the two contenders, the president has pulled off an impressive turnaround. Mr Kerry is against the ropes. Staff are being changed; Bill Clinton has been called in his hospital bed to give advice; already the dread word "Dukakis" has been mentioned.

Even allowing for the ebb and flow of campaigns, this turnaround demands explanation. Has Mr Bush come back by accentuating legitimate differences with Mr Kerry and (as this newspaper urged him to do two weeks ago) offering at last a more compelling vision of his second term? Or is the Bush bounce the product of dirty tricks and a disingenuous convention, as the Democrats claim? The answer is a bit of both.

Mr Bush's comeback started before the Republican convention, spurred in part by a group of Republican-leaning Swift Boat veterans attacking Mr Kerry's Vietnam heroics. A dirty trick? Yes, to the extent that most of the evidence still supports the challenger's version of events on the Mekong river nearly 40 years ago. On the other hand, Mr Bush has also been pummelled for far longer by Mr Kerry's surrogates. And it was Mr Kerry who decided to make Vietnam such a prominent part of his campaign, ignoring other more relevant things, such as his lengthy service in the Senate.

Mr Bush has ground his way into the lead largely by sticking to two themes: that he has a decent record in the paramount issue of the time, the war on terror; and that Mr Kerry is a flip-flopper who cannot be trusted. Both Mr Bush's pitches to the public are open to debate, but they hardly count as electoral smoke and mirrors. His speech to the convention in New York was straightforward and, in many ways, substantive, and it is on the themes laid out there that voters will judge him.

On foreign policy, Mr Bush was unrepentant—and, for the most part, admirably so. He wrapped Iraq into the war on terror, and he clung to the theme that bringing democracy to the Middle East is a necessary part of making America safer in the long term. Less to this newspaper's taste, he offered little in the way of change in terms of the culture wars. He talked about being a compassionate conservative, and he gave plenty of time at the podium to the more moderate faces in his party. The problem is that he did the same four years ago; and his party's platform is, if anything, more conservative than before on issues such as gay marriage and stem-cell research.

The most detailed part of Mr Bush's speech correctly focused on the area where he had most to prove: domestic policy (see article). Here, he offered something closer to a new domestic agenda by focusing on two broad themes. The first was an "ownership society", his name for reforming Social Security and Medicare by promoting individual pension and health accounts; such portable accounts, argued Mr Bush, better suited a world where people frequently changed jobs. The second was a package of targeted, quite Clintonian proposals that might be dubbed "coping with globalisation". Rather than closing American markets, more will be done to train American workers and open up foreign markets.

Arnie's "girly-men" economists may actually be right

Mr Bush could hardly be expected to give many details on these topics in a convention speech, but his past four years should make no one simply trust that his ideas will eventually add up. For, unforgivably, he failed to mention the most crucial subject of all: the federal budget deficit. His ideas are not cheap: some put the transition costs for Social Security alone at $1 trillion. Mr Bush talked about reforming the tax code; but he also wants to make his existing tax cuts permanent. Perhaps Mr Bush has a painful way to cut government spending that he has not told anyone about; or he genuinely believes that the deficit—a whopping $2.3 trillion over the next decade, according to the Congressional Budget Office—is sustainable; or he is just telling people what they want to hear. None of these explanations is exactly reassuring.

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India and Pakistan

Only Kashmir

Sep 9th 2004
From The Economist print edition

Time is not on the negotiators' side

AFP

IT WAS, everyone agreed, a thrilling offer. India, which not so long before had sealed its border with Pakistan and massed its army along it, proposed to open a bus route between Srinagar, the capital of the part of Kashmir it controls, and Muzaffarabad, the capital of Pakistan's bit. For Kashmiris, divided by more than 50 years of hot and cold war, it seemed a possible first step towards eventual reunification. For the world, it seemed a token of peace between two nuclear-armed adversaries. But the offer was made 11 months ago, and—sad, but needless to say—the bus has yet to go anywhere.

This week, Pakistan's foreign minister called on his counterpart in Delhi for two days of talks (see article). Though nothing of substance appears to have been agreed, this was a significant moment. Since an attack on India's parliament drove the two countries to the brink of war in December 2001, formal top-level meetings between the neighbours had been suspended. This pow-wow marked a return to normality. Even before it, much had been achieved. Since the then Indian prime minister offered friendship to Pakistan in April last year, diplomatic relations have been normalised, and planes, trains and buses now shuttle between Delhi and Lahore. There have been military confidence-building measures, cricket matches and a stream of visitors in both directions. In short, there has been progress on almost everything apart from the one thing that really matters. Only Kashmir remains untouched.

This is far from displeasing to India. It is easy to hold out the hand of friendship from a position of superiority, such as that enjoyed by India in the beautiful and strategic Valley of Kashmir. Pakistan, which holds only a fragment of a state that is dominated by Muslims but was ceded to India by its Hindu maharajah in 1947, takes a rather different view of the status quo. So do the Kashmiris themselves. Perhaps 75,000 of them have died in a 15-year revolt against India's oppressive rule. But the balance of power is so hugely on India's side that, if there is to be a peace, most thoughtful observers on both sides accept that it will have to be largely on India's terms. A group of brave Kashmiris has undertaken to talk to India; and Pakistan, equally hard-headedly, has not repudiated them.

But it is an exceptionally bitter cup to drain. And India, for reasons that are hard to fathom, seems not to see the danger in allowing the other side to do all the conceding. It has repeatedly failed—and failed again this week—to reward people who are taking dreadful personal risks. There have been no prisoner releases in Kashmir, and the Kashmiri moderates are banned from travelling abroad, which prevents them from talking to Kashmiris on the other side. The famous bus is not running because India insists that passengers must carry passports, which would have the effect of turning the line of control that divides the two Kashmirs into an international border. That is precisely the most toxic issue, and the reason the Pakistani establishment is blocking an agreement.

But it is also why India should show more flexibility. Instead, it is refusing to allow officials of the elected Kashmiri government to take part in the bus talks, even though the bus itself will be their responsibility. If India continues to offer nothing in return, sooner rather than later the Kashmiris will give up on talking. And Pakistan is far too volatile and dangerous a place to be taken for granted either. India needs the moderate Kashmiris and Pakistan's President Pervez Musharraf to survive. It should be helping them to do so.

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Regulatory reform

Breaking poverty's chains

Sep 9th 2004
From The Economist print edition

How to help poor countries help themselves

BY ALMOST any measure, foreign aid to the world's poorest countries remains much too low. But money is not the only, nor even always the best, way to help. An often-ignored fact is that poor countries frequently hurt themselves by strangling business with red tape. A splendid new report from the World Bank, “Doing Business in 2005”, provides a long list of such self-inflicted wounds in 145 countries (see article). It examines seven indicators of a country's business climate, from the cost of starting a new firm and enforcing contracts to the ease of hiring or firing workers and of borrowing money.

The report is a mine of useful as well as disturbing information, and something of a handbook for how to put things right. It finds that poor countries impose on average three times the administrative costs and twice the number of bureaucratic procedures as rich countries. For example, registering property requires one step in Norway, but 16 in Algeria. Incorporating a business takes two days in Canada, but 153 in Mozambique. Sacking a worker in Guatemala costs a firm three years' worth of wages, compared with almost nothing in New Zealand. Altogether, such things are a heavy economic burden on poor nations.

Of course, not all regulation destroys wealth. Protecting property rights requires plenty of government action, such as granting titles, creating fair courts, and enforcing contracts and debts as well as environmental regulations. But poor countries often lack these. Reform means scrapping bad laws and creating better institutions. Some poorer countries, such as Slovakia and Colombia, have made much progress over the past year, but most others still have a long way to go. Many of the problems in poor countries are the legacy of European colonists' laws and bureaucracy, designed to control a local population, not to encourage growth. Last year, the first issue of “Doing Business” noted that countries with legal codes derived from France were among those with the most red tape. On top of these have grown further native encrustations. Thus Latin America today suffers not only from the Napoleonic code and layers of Iberian bureaucracy, but also from practices introduced by heavy-handed modern governments. Jettisoning this ballast even while preserving regulations that are fundamental to economic growth will require good judgment.

A to-do list for growth

The first step is to put aside ideology, from the left or the right. Development aid is beset by arguments over whether improving the business climate or reducing poverty should be the priority. In most cases, that debate is phoney: the two goals are the same. Labour-market reform creates more jobs for the excluded, typically women and the young. Improving property rights makes businesses more willing to invest. For example, aid money from Sweden, Denmark and Norway, all with solid social safety nets at home, has been well-targeted at ostensibly business-friendly reforms, such as improving property registers and training judges for commercial courts in Africa.

Another lesson is that the order of reforms can matter. Granting land titles to holders of informal plots has had some success in Peru. But if labour and banking laws have not been improved, titles will not make it much easier to run a business. It may be best to start with the hardest steps, as Colombia has done with its labour market, and then tackle simpler ones. Being part of a larger economic grouping, such as the European Union or a free-trade area, can help.

Making more foreign aid conditional on specific and verifiable regulatory reforms would also help, and examples of aid that has been used in such ways have already produced encouraging results. Development banks have taken a beating in recent years for pushing budget cuts and privatisations on borrowers. But the reforms outlined in “Doing Business” should be far less controversial, and might even prove popular. Can anyone really argue, for example, that requiring a minister to approve land registrations, as in Malawi, helps the poor?

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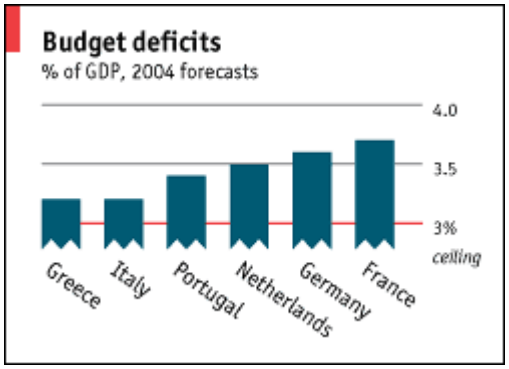
Europe's single currency

The instability and fudge pact

Sep 9th 2004
From The Economist print edition

Why it is right to water down the rules for the euro

Get article background



EUROPE'S finance ministers, like their counterparts everywhere, usually crave discipline and clarity. Yet this weekend they will be discussing a plan by the European Commission to make the "stability and growth pact", the set of rules that are supposed to limit budget deficits run by countries in the euro, less firm and more fuzzy. Somewhat counter-intuitively, they would be wise to welcome the proposals—although they also need to find better ways to instil fiscal discipline.

There are two huge problems with the existing pact. To impose a rigid rule that budget deficits should never exceed 3% of GDP save in the deepest of recessions was foolish economics, for a monetary union needs more fiscal flexibility, not less. And to support the rules with sanctions that could turn into fines as big as 0.5% of GDP was idiotic politics. Even when the rules were drawn up, it was predictable (and was predicted, by this newspaper among others) that they would never be enforced. This remained true even after the commission in July won a court ruling that France and Germany had broken the law by persuading their colleagues to "set aside" the pact, rather than sanction them for breaching that 3% ceiling.

The commission now plans to be more flexible over such breaches. It will take into account not just recessions but lengthy periods of slow growth. It will consider the sustainability of countries' public finances, paying more attention to overall debt burdens, and to long-term liabilities such as pensions, than to a single year's deficit. Countries will be given longer to bring deficits down. Although the formal provisions for fines will remain, as they are enshrined in treaties, the implication is that in future nobody will try to impose them. Instead the system will work through peer pressure.

Several central banks are unhappy about a weakening of the rules. This week the German Bundesbank blasted the commission's plans. The European Central Bank has also said it sees no need for changes in the pact. Some finance ministers may agree, especially those who accused France and Germany of applying the law to the small and meek but not to the big and powerful. If enough say no to any change, the pact will continue as it is. Yet as one finance minister puts it succinctly: "The worst possible combination is strict rules, severe sanctions and no credible enforcement."

The question is, will peer pressure be enforcement enough? Despite what France and Germany did last year, finance ministers do genuinely seem to be trying to hold down their deficits. Italy has made strenuous efforts to stay under 3%, for example, even if its government has included several one-off dodges such as tax amnesties. But the best hope should be that peer pressure is supplemented not by theoretical fines, but by a more potent practical threat: the financial markets.

An oddity of the first few years' experience of the euro has been that markets seem to have distinguished so little between the creditworthiness of different countries. The prospect of a default by any euro member is, of course, remote. But fiscal discipline would be stronger if it was clearer that it is not wholly inconceivable—and that neither the ECB nor anyone else would stand behind potential defaulters. The downgrade in Italy's credit rating last July was salutary. If ministers and central bankers want to reinforce budget discipline, they should stand up and repeat loudly the provisions of the Maastricht treaty that forbid any bail-out of national governments—and let markets draw the appropriate conclusions.

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Letters

Sep 9th 2004
From The Economist print edition

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For and against

SIR – Your suggestion that the Bush presidency has overstepped established bounds in its approach to domestic and international affairs seems extreme ("Je ne regrette rien", August 28th). Bill Clinton, for instance, attempted to socialise American medicine in one fell swoop through a closed-door summit of the like-minded. Likewise, President Bush's preference for confronting the proliferation of truly nasty weapons with actions rather than yet more empty resolutions came after much diplomatic effort. It will come to be celebrated as a prudent strategy ranked alongside those initiatives of earlier presidents that yielded the demise of both fascism and communism.

Ron Goodden
Atlanta

SIR – You doggedly support Mr Bush's foreign policy even though he started a second war with a regime that was no threat in its own right and had no ties to our principal enemy, al-Qaeda. This has had the predictable result of wasting valuable manpower and resources while strengthening the real enemy. It would seem that you, like the president, have difficulty expressing your regrets.

Geoffrey Berg
Warren, Rhode Island

SIR – It seems that those who disagree with gay marriage and killing human embryos in the name of research are to be labelled "zealots of the Christian right". Given *The Economist*'s famous even-handedness, I look forward to the supporters of these measures (including your newspaper) being hereafter referred to as the "uncommitted of the atheist left".

Tony Payne
Sydney

SIR – You suggest Mr Bush needs to try to cast the Republican Party in a new light because "more of the same just will not do." Unfortunately, whatever new promises he makes to the American people will be compromised by the broken promise, four years ago, of compassionate conservatism. If, as you argued, Mr Bush ignored his promise to govern compassionately four years ago, why should he be trusted now to recast the Republican Party in a new, more *Economist*-like, light?

Benjamin Traster
Washington, DC

SIR – In alluding to an Edith Piaf song—"Non, je ne regrette rien"—for your cover headline (August 28th), surely you made the wrong choice. With the delusional spin the Republicans put on a mediocre economy, the burgeoning deficit, the quagmire in Iraq, the sad state of health care, etc, wouldn't a more appropriate Piaf song be "La vie en rose"?

Michel Le Gall
East Brunswick, New Jersey

Environmental optimism

SIR – Despite the alarming state of China's environment, you allude to several causes for optimism ("A great wall of waste", August 21st). The growth of involvement by citizens in environmental policy and public debate is indeed monumental and over the past few years, non-governmental environmental groups have exploded in number. By promoting environmental education, launching conservation campaigns and monitoring local environmental policies, Chinese environmentalists are testing the boundaries of activism. They are even getting the green light from Beijing. Furthermore, they are demonstrating a keen ability to navigate a sometimes intolerant political landscape, while quietly pioneering a revolutionary course.

Melinda Kramer
San Francisco

SIR – You list a wide array of environmental problems in China but conclude that as developing countries get richer they tend to pollute less. The Kuznets curve posits that the environmental impact initially increases as a country develops, but beyond some level of income additional economic growth leads to environmental improvements. An extensive literature has questioned the theoretical and methodological underpinnings of this hypothesis, and many studies have concluded that environmental progress in the latter stages of development is critically dependent on sound government policies and robust civic institutions, as well as help from economic growth. No need to be unremittingly gloomy, but it would be a mistake to assume that rising incomes alone will automatically deliver environmental progress in China.

Bill Nickerson
Washington, DC

Home cooking

SIR – It is not necessary to denigrate the mid-20th century food of America in order to praise the life and career of Julia Child (Obituary, August 28th). America has a rich history of cuisine. From the Cajun and Creole cooking of southern Louisiana, to the simple but hearty food of the rural Deep South (today mistakenly called "soul food"), and the barbecue and Tex-Mex of Texas, Americans in search of a full stomach and sated palate have never had the need to resort to the exotica of French cooking. Mrs Child may have added to our eating experience but she did not create it.

Art Smith
Cottonwood, Arizona

Joint sovereignty

SIR – The only way the dispute over Kashmir can be resolved speedily is for both sides to agree on the concept of joint sovereignty that is exercised by both parties on their sides of the line of control ("Over before it began", August 21st). Such an agreement could start a three-phase process of demilitarisation, democratisation and institution-building in the region.

First, a reduction in levels of armed forces on either side would follow a cessation of hostilities. Second, each region of Kashmir would hold local elections and take over local government. Finally, a referendum in each of these areas would determine whether they prefer the status quo or want to become part of a united autonomous Kashmir. Those constituent areas that prefer the latter could then elect a substantially autonomous government covering both the Indian and Pakistani areas of the state, with freedom of access for its citizens across the line of control.

Srinivas Chari
London

Upholding neutrality

SIR – You go some way to articulating the security challenges facing humanitarian organisations like the Red Cross movement in ever-uncertain times ("Doing business in dangerous places", August 14th). Regrettably, there is some evidence that the neutrality and protection symbolised by the red-cross emblem is being ignored.

Our neutrality gives the Red Cross unparalleled access to those in need. This is jeopardised, and the lives of our staff and volunteers put at risk, where our neutrality is not well understood. One factor

contributing to this is where the distinction between military and political objectives and humanitarian objectives is insufficiently clear. Big business, arms bearers and politicians alike have a role to play in understanding and upholding what the red-cross emblem means on the front-line: “do not attack”.

Michael Meyer
Head of international law
British Red Cross
London

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Beslan and after

Terror's new depths

Sep 9th 2004 | BESLAN
From The Economist print edition

AFP

The web of conflicts in the northern Caucasus, and Russia's incompetent efforts to solve them, mean that the Beslan tragedy could be repeated

Get article background

IT IS an utterly ordinary sight: a boy and two girls, aged maybe 11 or 12, laughing together as they scuttle down the street. But in this place it makes the heart stop, even an outsider's heart. To a parent who has just lost a child, or several children, to bullets and shrapnel, the reminder that someone else's children are still alive must be excruciating. Add to that pain the anguish of dozens of relatives and friends. Mix in ethnic hatred, anger at official bungling, and the fear born of not comprehending why the horror happened but realising that nobody knows how to stop it happening again. Now multiply those feelings several hundred times. This is Beslan.

The usual clichés of misfortune are too feeble. It is “a town in mourning”—as was Columbine. But Beslan, only slightly bigger than the place where America's worst school shooting claimed 15 lives, is mourning a loss that, once the missing have been added to the dead, may be over 30 times as great. In the central district near the charred wreckage of Middle School Number One, where terrorists held over 1,100 people hostage in the gym for 52 hours before blowing it up, there are blocks of flats that have lost two dozen residents, and coffin lids and wreaths fill the entrances to the stairwells. On the streets every huddle of people is a wake, every line of cars a burial cavalcade; keening and crying sounds float out of one door after another.

The funerals are simply too many. On the road to the main cemetery, rain-soaked policemen flail their batons at delivery trucks co-opted as hearses. Neither is up to their new task. The road is choked with traffic and littered with fallen flowers. Nobody is in the cemetery: there is no room for the dead, let alone the living. It is in a neighbouring field that crowds of men race to dig the earth up fast enough to receive the bodies. The only people not at funerals are those still trying to find enough of a body to hold a funeral for.

The bodies...never mind. Others have described every charred and dismembered limb. They can be buried. What defies both description and disposal is the grief. It hangs in the air so thickly that it makes passers-by sigh without knowing why. It is noticeable too by its absence; those who have not lost anyone look like foreigners, uneasy and out of place.

The worst thing, however, seems to be not knowing: not knowing whether loved ones have survived, and not knowing how or why the dead were killed. All the town is searching for answers.

A timetable of terror

September 1st was the opening day of the school year. Children were leaving their classrooms to gather in the courtyard. Many had their parents with them. It was a festive day, and some remember thinking that the first gunshots were balloons exploding—until the automatic gunfire began. They were rounded up, herded into the gym—"piled up like walruses", says one 11-year-old, giggling—and told to sit and wait. A few who disobeyed were killed on the spot. Their attackers taped home-made bombs on to wires strung between the basketball hoops and in a line along the floor, all connected to a detonator. Pre-empting an assault with paralysing gas, like the one that ended the hostage crisis in a Moscow theatre in 2002, they shot out the windows.

At first the hostages were allowed water and visits to the toilet, but as time went by their privileges were cut. By the third morning, in the soaring temperatures of the packed hall, people were drinking urine, using their shoes as receptacles. By now the parched children were crying and complaining uncontrollably, and the terrorists were increasingly nervous. Their warning bursts of gunfire into the ceiling silenced their captives for no more than a few moments. On the morning of September 3rd, after agreeing to let emergency workers into the school yard to collect the bodies of dead hostages, the attackers became convinced that there would be a rescue attempt. They began to re-hang the explosives along the window ledges.

A litany of horror

	Location	Event	Deaths*
1995, June	Budyennovsk, Russia	Hospital hostage siege	at least 130
1996, January	Dagestan	Hospital hostage siege	50-100
1996, January	Trabzon, Turkish Black Sea	Ferry hijack by pro-Chechen Turks	none
1999, September	Moscow, Buynaksk and Volgodonsk	Apartment block bombings	over 260
2000, July	Chechnya	Russian security bases attacked by suicide bombers	over 50
2001, March	Turkey	Russian airliner hijacked to Saudi Arabia by Chechens	3
2002, October	Moscow	Theatre siege	170
2003, July	Moscow	Suicide bombing at open-air music festival	17
2003, August	Mozdok, North Ossetia	Military hospital suicide truck bombing	52
2003, December	Yessentuki, Russia	Train bombing	46
2003, December	Moscow	Suicide bomb	6
2004, February	Moscow	Metro train bomb	40
2004, May	Grozny	Bomb detonated, assassinating President Akhmad Kadyrov	at least 5
2004, June	Ingushetia	Raids carried out by Chechen rebels	at least 92
2004, August	Moscow/Rostov-on-Don	Two passenger planes crash, probably due to terrorist bombs	89
2004, August	Moscow	Suicide bombing near Metro station	10
2004, September	Beslan, North Ossetia	School siege	330 confirmed

Sources: Reuters; Keesing's; MIPT

*Including terrorists

Shortly after 1pm, as the emergency workers were coming in, one of the bombs blew up, apparently by accident. Dazed hostages began escaping; panicked terrorists began shooting; and the security forces around the school began firing back. Ruslan Aushev, a former president of Ingushetia who had briefly negotiated with the hostage-takers, told a Russian newspaper later that they had called him asking for a ceasefire. It was ordered.

But in the conflict-ridden northern Caucasus, many civilians have their own guns. "There are groups of us that the security forces trust to handle weapons," explains Timur Murtazov, a former special-forces soldier who now drives a taxi. They must regret that now. The hundreds of armed relatives around the school ignored the ceasefire order. Convinced that an all-out assault was in progress, the terrorists detonated the rest of their bombs and carried on firing indiscriminately, shooting many of the fleeing

hostages in the back.

As the mix of troops and civilians caused havoc in the fighting around the school, so the clogged streets nearby—there was no effective security cordon—blocked rescue vehicles. But the rescuers were also unprepared for the size of the task; the authorities had claimed that there were only 354 hostages. Their mendacity infuriated the relatives. “Three classes in each grade, up to 30 children in each class, 12 grades, and all the parents and relatives who were there for the opening day—we knew they were lying to us,” says one parent.

But Russian officialdom's love of secrecy is all-pervasive. Adhering to reporting restrictions introduced after the theatre siege two years ago, the main state television channels stopped live broadcasts when the explosions began and resumed only an hour later. The editor of the newspaper *Izvestia*, Raf Shakirov, resigned over the paper's critical coverage of Beslan, reportedly on the Kremlin's orders (the paper is owned by Vladimir Potanin, the media magnate most loyal to Mr Putin). Two Russian journalists noted for their reporting on Chechnya, Andrei Babitsky and Anna Politkovskaya, were turned back on the way to Beslan—he arrested after a staged scuffle, she mysteriously poisoned. Even your correspondent's interview with one family of survivors was cut short by a neighbour who was also an agent for the FSB, the Russian security service. “They've told you everything,” he said, though they certainly had not. “Come back another time. Maybe in a month. No, you can't have the phone number.”

Not even the exact number of terrorists is clear: estimates of 26, 28, 30, 32 and 35 have all been quoted by different official sources. Nor is much known about how they got to Beslan in the first place. In several previous terrorist attacks, bribes got the attackers through checkpoints. “Forbidden” in Russia usually just means “It will cost you”. Even in the hours after the Beslan siege, when North Ossetia's border was supposedly tightly sealed, it took just $50 to get a car with three journalists through without so much as an identity check or a glance in the boot.

The full truth of how Beslan came about will probably never be known to the public. President Vladimir Putin has ordered an inquiry, but it will be an internal one. What creates men and women capable of the barbarity at Beslan, though, does not need an inquiry to discover. It is visible just across the border.

The Chechen racket

There was nothing unusual about the car that Ingush police stopped at a checkpoint on one of the main roads into Chechnya on June 17th—except for the man they found tied up in the boot. Adam Medov told them he was being kidnapped. His kidnappers showed the identity papers of officers in the FSB, based in Chechnya. Challenged further, they sent away to headquarters for a permit allowing them to arrest Mr Medov.

So the police let them go. Mr Medov's wife, Zalina, wrote to the authorities, and got replies: one from Ingush prosecutors giving the names and ranks of the four officers who took her husband, and one from the FSB stating that not only did it not have him, but that the officers named did not exist. At the end of July a man came to see her who said he had spent three weeks in a cell next to Mr Medov's at the Khankala military base near Grozny, Chechnya's capital. Both of them were frequently beaten. The man's relatives managed to buy his freedom, he said, for $20,000.

In Chechnya, stories like this occur every day. The conflict was never simply a high-minded fight for independence—Chechen separatism was born among the debris of the Soviet Union as a power struggle for the republic's oil wealth—but now it has become a pure racket in which the army, the rebels and the militia loyal to Ramzan Kadyrov, the son of the Chechen president killed in May, slug it out for money and blood.

The sources of enrichment are many: not just ransoms, but checkpoint bribes, illicit oil wells, arms smuggling (rebel leaders have boasted of getting most of their weapons from the army), grants from Islamic extremists, and the diversion of federal funds aimed at reconstruction and compensation. When Mr Putin flew over Grozny in May, shortly after Akhmad Kadyrov's assassination, he was noticeably shocked at the bombed-out state of the city, as if realising that the billions of dollars poured into Chechnya had gone nowhere.

But Ingushetia, whose people are ethnically and linguistically close to the Chechens, used to be fairly free of such terror. Hundreds of thousands of war refugees took shelter there. Unfortunately, so did Chechen rebels. Murat Zyazikov, the republic's president, began a campaign to root them out. That brought to Ingushetia the brutal tactics used by security forces in Chechnya. Mr Medov told the police that his kidnappers had tried to get him to admit taking part in an assassination attempt on Mr Zyazikov in April.

Memorial, a human-rights organisation, estimates that Ingushetia saw some 50 kidnappings from January 2003 to July 2004. Galina Gubina, a local official who survived a car-bomb attack last May, claimed that there had been 25 kidnappings in the previous three months. For many, the new climate of fear explains why witnesses reported a large number of Ingush as well as Chechens among the rebels who attacked Nazran in June, as well as among the Beslan raiders.

The instability threatens to leak further. Kabardino-Balkarskaya is turning into what Ingushetia used to be, a calm place where rebels can escape to recover. Shamil Basayev, the most extreme Chechen rebel leader, believed to be the mastermind of Beslan and previous hostage-takings, has reportedly been sighted there in recent months. Last month the republic saw a big army operation against a suspected rebel gang. In Dagestan, on the other side of Chechnya, the run-up to the presidential election in 2006 is turning into a struggle between two ethnic groups, the Avars and Dargins. An old power-sharing arrangement between the two groups has been upset, partly because Chechen war refugees have flooded into the Avar stronghold of Khasavyurt, shifting the balance of power. Slowly but surely, Chechnya's conflict is sowing seeds elsewhere.

EPA

On the make in Chechnya

It has also infected the general fabric of Russian society in less obvious ways. State spending on the war is secret, but it is a huge drain on the budget, made worse by the fact that so much is stolen. The number of Chechen civilians killed is simply unknown, though plausible estimates range up to 70,000. Official figures for military losses run at about one-third of those from the Committee of Soldiers' Mothers, a nationwide group that helps families track down missing sons. But those who survive are a brutalised generation. Perhaps half a million have passed through military service there. Many come back alcoholic, criminal or unemployable; some find the only work they can in the police, where, report human-rights groups, they apply torture methods first developed in Chechnya.

But the horror of Beslan is unlikely to jolt Russians into thinking differently about dealing with terrorism. Many newspapers, even usually pro-Kremlin ones, criticised the handling of the siege, and many people felt that Mr Putin should have made a public statement sooner. But his speech the day after, in which he lamented the breakdown of Soviet greatness, blamed Russia's woes on the corruption and mismanagement that followed, and called for unity and an overhaul of security measures, seems to have pulled off the trick he usually manages in times of crisis: to look like a good, strong leader surrounded by incompetence and graft.

A bounty of $10m has been placed on the head of Mr Basayev and another rebel. Russia's top general, Yuri Baluyevsky, has also declared that his men “will carry out all measures to liquidate terrorist bases in any region of the world”. There have been rallies across Russia against terrorism, described as “totally spontaneous”—though at a meeting in Moscow on September 7th, everything spoke of careful and expensive organisation. Even in Beslan itself, people who rage at the local authorities—North Ossetia's president promised to resign after a big demonstration in the capital, Vladikavkaz—change tone when asked about Mr Putin. “He needs our help and support,” says Valentina, who is searching for news of a relative. “He only has one pair of hands, one pair of eyes. He can't manage it alone.”

A tradition of blood

In the Caucasus, traditions are strong. One is hospitality. The hordes of journalists who descended to feast on Beslan's tragedy were received with astonishing warmth. Families whose children had been blown to pieces housed and fed entire film crews for days, endured their non-stop schedules, gave them material for their reports, and adamantly refused to take any payment. It was humbling.

Another tradition, though, is the blood feud. When asked what will happen next, many in Beslan mention Vitali Kaloyev, the Ossetian who in February murdered an air-traffic controller who had allowed a Russian passenger jet to collide with a cargo plane over Switzerland in 2002.

Now their anger focuses on their neighbours, the Ingush. Relations have been strained for decades. The chopping and changing of borders that followed the Soviet collapse caused a brief but bloody civil war in 1992. Since then, both peoples have treated parts of each other's republics as no-go areas. But some mixed communities also live in peace.

That may change. The news that Ingush as well as Chechens were among the hostage-takers has poisoned the air. One hears the same stories all over Beslan: that it was Ingush workmen who scouted out the school for the terrorists during the summer, and laid weapons for them beneath the floorboards; that all the Ingush in Beslan left suddenly the day before the siege. “There was an Ingush boy in my class,” says Zarina, a student at the agricultural institute, by way of proof, “and he didn't come to the lecture that day.” In a tinderbox like the Caucasus, such are the comments that make wars begin anew.

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The presidential election

How big was the bounce?

Sep 9th 2004 | WASHINGTON, DC
From The Economist print edition

AFP

George Bush is probably pulling ahead in the presidential horse-race, though not for the reasons you might think

SINCE John Kerry clinched the Democratic nomination this spring, the presidential race has pretty much been a tie. This week, plenty of Republicans were cock-a-hoop and many Democrats crestfallen. Both thought that George Bush had broken away. Looking at the polling numbers as the race rounds into its final lap, they may be right.

The most dramatic polls were those published immediately after the Republican convention. Among likely voters, a poll by Gallup for CNN and *USA Today* found Mr Bush seven points ahead; *Time* put the lead at 11 points; a *Newsweek* poll gives the same lead among registered voters. No challenger has overcome a deficit that size after Labour Day and come back to win.

All three polls need to be handled with care. Both *Time* and *Newsweek* conducted their research while the Republican convention was still going on; so whatever they were measuring, it was not the impact of Mr Bush's acceptance speech, or the convention as a whole.

The *Time* and Gallup polls surveyed likely voters (likely in the opinion of pollsters). But polls of registered voters are usually regarded as more accurate. The margin among registered voters was lower: eight points according to *Time* and one point according to Gallup. *Newsweek's* poll, also among registered voters, used an odd sample—38% Republicans, 31% each for Democrats and independents, when current party registration has Democrats with 33% and Republicans with 29%. All three measures may exaggerate the size of Mr Bush's lead. But they do not invent it. Other polls from the same period show the president ahead, albeit in a much closer race—by two points, according to Zogby, and one, according to both the American Research Group and *The Economist*'s own poll, conducted by YouGov, a British polling firm.

The “bounce”—that is, the difference between Mr Bush's level of support before and after his convention—is also there, again

modestly. In our poll and Gallup's Mr Bush increased his vote by two points. That is better than Mr Kerry's non-bounce (his vote actually fell after his convention).

Our poll, the first taken in the week after the convention, uses a different technique from the others. It is conducted essentially by e-mail, not by phone or face to face. That produces an unusually large sample (2,300). It may also make the results less vulnerable to a problem that pollsters have long recognised: people who feel the winds of public opinion shifting in their direction are more confident about telling pollsters what they think than those who don't.

This offers both good and bad news for Mr Kerry. On the plus side, traditional polls may be underestimating Mr Kerry's level of support because Democratic voters are descending into a "spiral of silence": the more they feel isolated, the quieter they become. But it also carries a negative implication: plenty of Mr Kerry's own side now think he is going to lose.

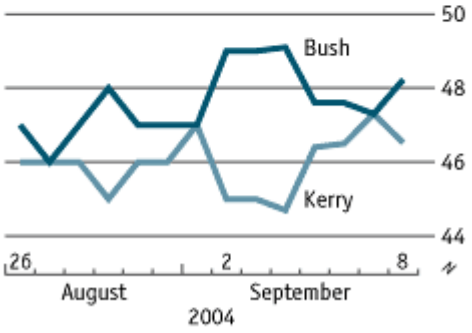
This crisis of confidence seems to have infected the Kerry campaign. The past two weeks have seen a shake-up in the high command. Three of Bill Clinton's aides have come in: his press secretary, Joe Lockhart, his political director, Doug Sosnik, and a senior policy adviser, Joel Johnson. Also drafted in was John Sasso, who had been in charge of campaigning at the Democratic National Committee.

Even money

% of people who say they would vote for either George Bush or John Kerry*
(most recent poll taken before the Republican convention)

Poll and date of fieldwork	Bush	Kerry	Bush "bounce"†
The Economist/YouGov September 6th-8th	46*(44)*	45*(47)*	2
Gallup September 3rd-5th	49*(47)*	48*(48)*	2
Newsweek September 2nd-3rd	52*(42)*	41*(49)*	10
Time Aug 31st-Sept 2nd	50*(46)*	42*(42)*	4

Rasmussen daily presidential tracking poll, %



Sources: *The Economist*/YouGov and other polls listed; Rasmussen Reports

*Registered voters
†% point shift in people who would vote for Bush

The change in personnel—rarely a good sign—seemed to presage a change in strategy. Mr Kerry made two phone calls soliciting advice from Mr Clinton, who was lying in a hospital bed awaiting quadruple bypass surgery. Mr Clinton apparently told Mr Kerry to concentrate more on the economy and to step up his attacks on Mr Bush. That has not stopped John Edwards being warned on the campaign trail by loyalists, "They're going to run you right over and make you look like idiots."

Given that on some measures the national race is statistically tied, that might seem a little negative. It is not. State polls seem to have turned Mr Bush's way: according to new numbers from Gallup, for instance, he now has double-digit leads in both Missouri and Ohio, which he won last time, and a tiny one-point lead in Pennsylvania, which Al Gore won. And on the national level, the size and longevity of Mr Bush's lead is less important than the mere fact of it. As Andy Kohut of the Pew Research Centre says, Mr Bush showed at his convention that he could move the needle, while Mr Kerry could not.

Over the next few weeks, the underlying trends may help the president further. Traditionally, the best barometers of opinion in the final stages have been presidential approval ratings and the "right track/wrong track" measure (those who say the country is going in the right direction compared with those who say it is on the wrong track). Not this year. Even after Mr Bush's recent rise, his approval ratings are generally just above 50%, poised between the ratings of sitting presidents who have won re-election and those who have fallen short. Most pollsters reckon that, after September 11th 2001, the right track/wrong track indicator no longer has its old salience. Since it is an indicator of public morality, or economic success, it is less important in a foreign-policy election.

Karlyn Bowman of the American Enterprise Institute argues instead that there are three groups of voters to watch: those who identify themselves as independents or say they might change their minds; non-Latino Catholics; and "some college" voters (those with a year or two of university education). These groups, which overlap, each comprised over a quarter of the electorate in 2000. They are also the closest to swing voters this election has ("undecideds" don't count because they may well not turn out). Add in the particular importance of Catholics in Pennsylvania and "some college" voters in Ohio, and you see why both sides are tracking them.

Mr Kerry is not doing well with these three groups. He leads by three points among independents, but on the eve of his convention he led by 12. According to Zogby, Mr Bush leads among Catholics for the first time. According to Pew, "some college" voters preferred Mr Bush to Mr Kerry by 49% to 43%—and that was before the Republican convention. Looking at the horse-race numbers, the Kerry campaign may feel

anxious; looking at these, alarm would be more justified.

This is the first presidential contest since the attacks on the World Trade Centre, and the first since 1972 to take place at a time of war. Normally, elections that take place at a time of war or foreign crisis produce a decisive victory. Until now, the contest has been tied. The question from the polling evidence is whether that may be beginning to change. A big Bush victory, while still not the most likely outcome, has become a real possibility.

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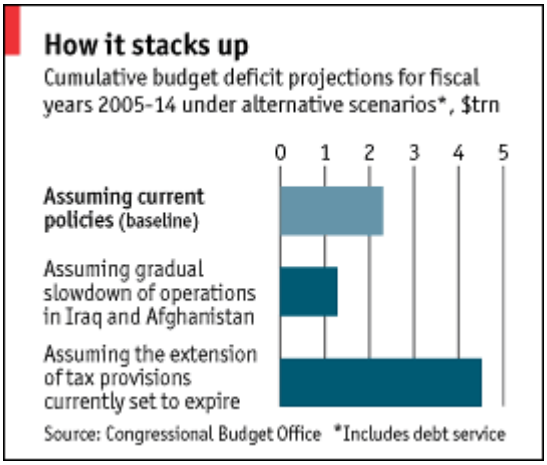
Bushnomics

A boundless vision, alas

Sep 9th 2004 | WASHINGTON, DC
From The Economist print edition

George Bush's economic agenda is full of bold ideas, but it does not add up



FOR the past four years George Bush's economic strategy has consisted of one idea: tax cuts. Whether the economy was growing or in recession, the budget in surplus or deficit, Mr Bush's prescription remained the same. While the White House developed a bold new vision for America's role in the world, economic policy boiled down to ad hoc justifications for more tax cuts.

This changed last week. In his speech to the Republican convention in New York, the president came much closer than before to articulating a coherent economic vision. It was an ambitious one too. It purported to define the proper role of government in the modern economy. To prosper, Mr Bush argued, America had to be the best place in the world to do business; and Americans must be equipped to deal with an economy where people change jobs frequently.

That, he said, required reforms to basic economic institutions: the tax code, health coverage, pensions. It meant creating an “ownership society” where people could prepare for retirement and meet their medical costs with individual accounts. It required a busy government. “Government should help people improve their lives, not try to run their lives,” Mr Bush intoned.

This is far from the government-is-the-problem rhetoric that Republicans have touted for years. Great chunks of Mr Bush's economic vision sound more like Bill Clinton than Ronald Reagan. In his convention speech in 1992, Mr Clinton talked of a government that “expands opportunity, not bureaucracy”, a government that helps people succeed in a changing economy.

Mr Bush did more than steal the New Democrat rhetoric. He also copied Mr Clinton's strategy of using myriad small initiatives to show his desire to help Americans succeed. Mr Bush's speech (with accompanying details on his website) offered a slew of voter-friendly policies. There were plans to double the number of people in job training, increase money for community colleges, put a health centre in every poor county and begin a “Cover the Kids” campaign to extend health-care coverage to more poor children. Mr Bush pledged to increase Pell grants, which help the poor to pay for college. And he promised to make workplaces friendlier to families, by pushing for “comp time” and “flex time”.

But if half his vision was Clintonomic, the other half was more straightforwardly conservative. Tax cuts were still to the fore. “My plan will encourage investment...by restraining federal spending, reducing regulation, and making the tax relief permanent,” Mr Bush promised. Goals that many conservatives value even more highly—tax reform and pension privatisation—also got a mention. Mr Bush promised to lead a bipartisan commission to reform the tax code, to make the system simpler, fairer and more pro-growth. And he repeated his pledge from 2000 that younger workers should be allowed to divert some of their payroll taxes into individual retirement accounts (though there was no more detail on this than there was four years ago).

Just what does it all add up to? Even conservatives disagree. David Brooks of the *New York Times* saw it as a transformational speech that broadened “compassionate conservatism” into a new governing philosophy. Others saw only blatant vote-buying. Bruce Bartlett, a conservative economic analyst, argued that Bush's agenda boiled down to “spend money on whatever you think will buy you a vote.” He

predicted a Republican civil war after November 2nd.

The new “agenda” was certainly designed for maximum short-term political appeal: red meat for the conservative faithful coupled with promises of help for the squeezed middle class. The economy is one area where John Kerry generally still does better than Mr Bush in the polls. And the jobs situation is far from rosy. The Labour Department reported on September 3rd that 144,000 new jobs were created in August, much better than in June and July but hardly proof of a roaring job market. Mr Bush's speech was designed to protect his vulnerable domestic flank.

For all the ambitious rhetoric, Mr Bush's agenda is self-contradictory

Unfortunately, this short-term appeal came at the expense of consistency and credibility. For all the ambitious rhetoric, Mr Bush's agenda is self-contradictory. He pledged to restrain government spending, yet proposed a slew of new government programmes. He called for making the tax code simpler and fairer, yet he wants to make permanent his tax cuts which have dramatically complicated America's tax system. (In Mr Bush's first term the tax code has grown by 10,000 pages.)

Worse, the agenda failed to acknowledge America's fiscal predicament: a large budget deficit and the looming retirement of the baby-boomers. Junking any pretence of fiscal responsibility, Mr Bush failed to mention the budget deficit. The Bush-Cheney campaign says that its new spending proposals (excluding Social-Security reform) cost only $7.5 billion a year. The Bush people also claim, to widespread incredulity, that the deficit will be halved by 2008.

New figures released on September 7th by the Congressional Budget Office, Washington's independent budget watchdog, show just how reckless this nonchalance is. This year's deficit, at $422 billion or 3.6% of GDP, is marginally lower than the CBO estimated six months ago. But the outlook for the next ten years has worsened, to a cumulative deficit of $2.3 trillion.

Mr Bush's aides point out that this number includes improbably high estimates for military spending (by law, the CBO must take this year's large defence bill as its basis). Assume a slowdown in military spending and the deficit falls to $1.3 trillion over the decade (see chart above). But if Mr Bush's tax cuts are extended (as he pledges), then the deficit rises by more than $2 trillion. And that still does not include the cost of fixing the Alternative Minimum Tax. This was introduced in the 1970s to limit tax avoidance by rich Americans claiming deductions. Now it is clobbering ever more ordinary Americans. Around 3m people currently pay the AMT; by 2010, 30m will. Fixing the AMT to stop this expansion would add another $600 billion to the ten-year deficit.

Mr Bush's refusal to acknowledge any fiscal constraints means that, despite the bold ideas in his speech, it is hard to say what a second Bush term might really bring. Most policy wonks guess that tax reform will be a big issue, if only because the AMT mess will force more changes to the tax code. But what does Mr Bush mean by tax reform? Kevin Hassett of the American Enterprise Institute sees the possibility of “1986 Redux”, when Mr Reagan pushed through a base-broadening, rate-reducing reform in his second term. Others worry that tax reform may involve no more than simplifying procedures so that millions of Americans no longer have to file tax returns. The truth is that no one—including Mr Bush—appears to know.

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About sponsorship

The electoral week

On the trail

Sep 9th 2004
From The Economist print edition

Preacher man (1)

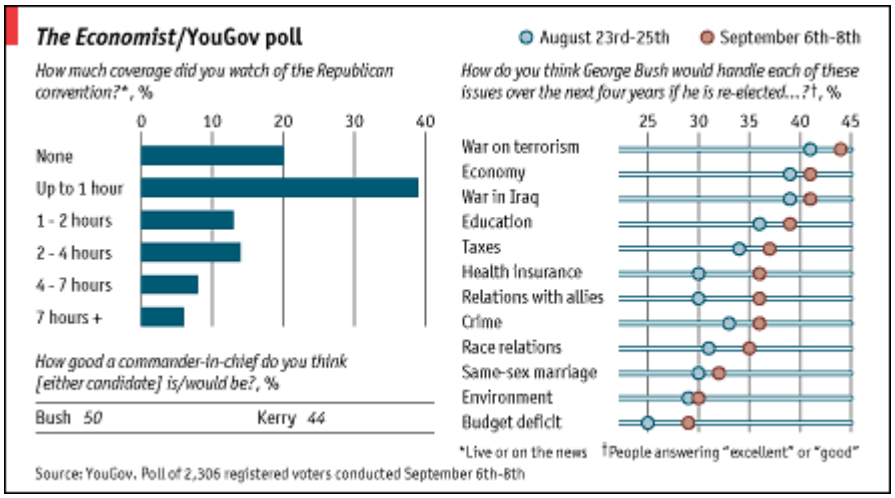
“When I heard Zell Miller going on about how he once was lost and now is found, I thought I heard the strains of Jimmy Swaggart. I thought I might get him to touch my hurt knee to heal it. But he's such a mean bastard, I was afraid he'd just hurt the other knee.”

Congressman Charles Rangel of New York appreciates his fellow Democrat's speech at the Republican Convention. New York Daily News, September 6th

Preacher man (2)

“I think old Zell Miller set a pretty good tempo for Democrats all across the country. He made it clear it's all right to come and support the Bush ticket.”

George Bush, September 5th



Dear John

“The nurse came in after the conversation [with Mr Kerry] and he said [Bill Clinton] got so excited during the conversation that, actually, they showed that his blood pressure went up during the conversation.”

James Carville on Mr Clinton's feelings for Mr Kerry. CNN, September 6th

Linguist in chief (1)

“Too many good docs are getting out of business. Too many OB/GYNs aren't able to practise their love with women all across this country.”

Mr Bush in Missouri, September 6th

Linguist in chief (2)

“I went to the Congress last September and proposed supplemental funding, which is money for armour and body parts and ammunition and fuel.”

Mr Bush on the stump in Pennsylvania, September 4th

British journalism at its finest

The Observer sent Robert McCrum to America to interview a bunch of American novelists about the election. His scoop: they didn't support Mr Bush.

September 5th

Not one of us

“Never applaud when they attack us Democrats.”

Maria Shriver to her son Patrick, who wanted to applaud his father, Arnold Schwarzenegger, at the Republican Convention. New York Post, September 3rd

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About sponsorship

Driving licences and immigration

The road to political trouble

Sep 9th 2004 | LOS ANGELES
From The Economist print edition

A tricky issue on the gubernator's desk

WHY do so many Californian drivers—some 3.4m out of a total of 23m—take to the roads without insurance? One answer is that a great many of them are illegal immigrants, unable to get a driving licence and the car insurance that follows from it. Hence the tricky question about to land on the desk of Governor Arnold Schwarzenegger: will he sign into law the Immigrant Responsibility and Security Act to allow illegally resident foreigners, principally low-paid Latinos, to obtain licences and, with them, a legal right to drive?

An impressive number of authorities, from the chief of the Los Angeles Police Department to the *San Francisco Chronicle*, think he should. James Hahn, the mayor of Los Angeles, says bluntly that the proposed law would go “a long way toward making Los Angeles a more safe and secure city”. According to the non-partisan Insurance Information Network of California, in some parts of Mr Hahn's city half the motorists are driving without insurance. In the San Francisco area, a quarter of the drivers are said to be without insurance. Moreover, says the IINC, an uninsured driver is more likely to be in an accident than his legal counterpart.

Mr Schwarzenegger, however, is set to cast his veto. The only licence he will approve is one marked to show it belongs to a foreigner. Otherwise, argues the governor, the licence is a security risk, giving a terrorist a chance to establish a fake identity.

This has prompted a storm of protest, ranging from libertarians, who point out that September 11th was not caused by fake driving licences, to Jewish groups who say such discrimination recalls the yellow star of David. Gil Cedillo, the Latino state senator who designed the law, argues that his proposal is already festooned with sufficient security measures. An applicant who cannot show legal residency in America must present a birth certificate and passport or consular ID; must provide fingerprints for a background check; must have no criminal history except for driving without a licence, registration or insurance; and must pay some $141 for the whole procedure.

Mr Cedillo insists the governor promised months ago to sign it. Mr Schwarzenegger says he didn't do so. He had earlier campaigned against a bill that Mr Cedillo eventually persuaded Governor Gray Davis to sign last year. Comparing his own suggestion to the systems in Israel and Mexico, Mr Schwarzenegger says a licence with a distinguishing mark or colour would be “like a visa—there's nothing wrong with it.”

Actually, what is wrong is obvious to everyone. “Undocumented” Latinos would be immediately identifiable to any authority and thus liable to deportation. In practice, that might be unlikely: local police are not supposed to act as immigration officers. Even so, a fearful Latino might well prefer to buy a counterfeit licence rather than take the risk associated with a genuine one. Plenty of other states—for example, Louisiana, Maryland and Oregon—do not make legal residency a requirement for a driving licence. For better or worse, many of California's businesses and homes depend on the hard work of illegal immigrants. And it is impossible to live, work or function in most of California, especially LA, without a car. A poll in May showed most people favoured a law along the lines proposed by Mr Cedillo.

So why doesn't Mr Schwarzenegger, who spends so much time courting Latino voters, sign the bill? The answer is that this governor may sometimes be prepared to break with his Republican base, but he is not a political masochist. That May poll also showed that a hard core of some 43% “will not support licences for illegal immigrants under any circumstances”. These conservative whites not only vote more heavily than Latinos; they also form the bedrock of the state Republican Party.

The present law requiring proof of legal residency goes back a decade to the era of another Republican

governor, Pete Wilson. Tom McClintock, a hard-line state senator, says Mr Cedillo's new law would “render as useless the driver's licences held by millions of Californians that are proof of legal residency”.

The pressure is coming not just from the Republicans; a handful of Democrats voted with the Republican minority when Mr Cedillo's bill passed through the legislature last month by 22-14 in the Senate and 42-35 in the Assembly. The previous Democratic governor, Mr Davis, twice vetoed bills prepared by Mr Cedillo. He gave in only in September last year, as he sought Latino votes to avoid being sacked by the electorate.

So what happens next? On one side, Mr Cedillo says he will ignore the governor's veto and introduce yet another bill when the legislature resumes work in December. On the other side, the Republicans who under Mr Wilson lobbied for Proposition 187, which denied public benefits to illegal immigrants (but was found to be unconstitutional), are now gathering signatures to put a “Save Our Licence” initiative on the ballot in March 2006.

Mr Schwarzenegger, inevitably, is trying to drive down the middle of the road. “I want everyone to be able to drive legally,” he says, “but it has to be a document that can't be used to get another document.” Normally, such a fudge would be untenable. But there may just be a way out. The September 11th Commission recommended a standardised American driving licence. If the gubernator can dump this problem on the federal authorities, he will be much relieved.

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After the Kobe Bryant case

A turn in the wrong direction?

Sep 9th 2004
From The Economist print edition

An ephemeral celebrity trial may have a lasting effect on rape laws

LAST week, the trial of Kobe Bryant collapsed when the basketball star's accuser told prosecutors she would not testify. The celebrity circus has now moved on, but the case has also exposed an important loophole in the laws designed to protect rape victims.

For those who have not seen an American newscast during the past 14 months, the case was a classic “he-said, she-said” argument. Mr Bryant's accuser said he had raped her at a Colorado ski resort; he insisted the sex was consensual. The accuser withdrew from the trial after the public learned her name and details of her sex life, which were supposed to remain confidential. In June, a court clerk accidentally sent the media a defence expert's claim that the accuser had sex with another man the day after seeing Mr Bryant, which she denied. She then filed a civil lawsuit against Mr Bryant, further compromising the criminal case by allowing the defence to argue that she had a profit motive.

The “public scorn, hatred, and ridicule” the accuser cites in her civil case would be all too familiar to rape victims of the past. Until the 1970s, defendants often won “he-said, she-said” acquaintance-rape trials by conducting “fishing expeditions” into accusers' sex lives that enabled them to be tainted as promiscuous. The fear of such investigations discouraged many rape victims from coming forward.

Sex-crimes trials have changed dramatically over the past 30 years, largely in favour of accusers. DNA evidence has in effect eliminated the “it-wasn't-me” defence. Meanwhile, “rape-shield” laws, which restrict the information about an accuser's other sexual activity allowed into court, have helped fight the “nutty and slutty” slurs from the defence.

However, the Bryant case shows how these two developments can work against each other, leaving the accusers in a bind. Prosecutors who want to use medical evidence of physical injury are required by law to provide the defence with all the results of the accuser's rape examination, including DNA evidence obtained to prove the alleged rapist's identity. The DNA tests also show whether the accuser engaged in any other sexual activity in the preceding five days.

Because Mr Bryant's accuser had sex with someone else in that period, the defence said that repeated consensual sex caused her injuries. The judge ruled that this argument fitted the exception to Colorado's rape-shield law, which admits evidence of outside sexual conduct only if it could directly exonerate the defendant. This ruling set off the chain of public disclosures that led the accuser to drop out.

Wendy Murphy, who teaches at the New England School of Law, points out that anyone “who's had sex today and had the misfortune of suffering rape tomorrow” is now caught in the same trap as Mr Bryant's accuser: the judge automatically allows in the evidence about her previous history. The same rape-shield laws that were designed to insulate past consensual sex from the trial have “become the means by which it becomes admitted”.

An even more perverse consequence, Ms Murphy argues, is that women who suffer injuries during rape are now more likely to suffer courtroom disclosure of their sexual past than rape victims who are not injured. In theory, that would create an incentive for rapists, some of whom at least are specialists in the law, to beat up their victims as well as violate them. Phyllis Goldfarb, a professor at Boston College Law School, agrees. She fears that the Bryant case—and others like it—will deter women from reporting rape.

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Shakespeare and war

Let slip the dawgs

Sep 9th 2004 | CHICAGO AND WASHINGTON, DC
From The Economist print edition

A few bloody and unnatural acts to motivate the troops

WHEN the curtain rises at Maxwell Air Force Base in Alabama this weekend, troops in the audience won't be eyeing the usual leggy morale-boosting blondes; instead, they will be confronted by men in kilts. The strange alliance of the Pentagon and the National Endowment for the Arts (NEA) is sending a “very earthy” production of “Macbeth” to tour 13 bases.

Although the blood-splattered Scottish play is not known for its morale-inducing qualities, the touring Alabama Shakespeare Festival hopes for an effect “like Braveheart”. The Pentagon has coughed up $1m (under special congressional authorisation) to bring the Bard to the troops. The actors will also do workshops for them.

Dana Gioia, the NEA's chairman, insists that the choice of “Macbeth” reflects no underlying message; it is just a short, well-known and portable play with a small (and rapidly diminishing) cast. Besides, he adds, it's a play about soldiers. Well, yes, they do appear occasionally, sometimes as trees.

The military outreach is very much Mr Gioia's brainchild. A businessman turned poet, he has been using NEA money to bring Shakespeare to rural and inner-city America. He had the idea of ringing up the Pentagon when his younger sister was called up for active duty.

David Chu, the under-secretary of defence who oversees social programmes for troops, admits he was “surprised that the NEA noticed us”. Now he's a keen supporter. He bristles at suggestions that Shakespeare is too highbrow for troops, noting they are better educated and older than in the past. The Pentagon and the NEA have started a series of writing workshops at military bases led by the likes of Tom Clancy and Tobias Wolff: “Operation Homecoming” encourages soldiers who have served in Iraq or Afghanistan to put their stories on paper.

If this was meant to charm the hard men of the Bush administration, it seems to be working. The White House has requested a hefty increase in the organisation's funding this year. What about overseas bases? The Pentagon-NEA alliance has just tried out a literary workshop for troops at Camp Ederle in Vicenze, Italy. Surely “Henry V” could work wonders in Baghdad, especially if “Texan” replaced “English” throughout? Alas, for the moment they will have to make do with Robin Williams, Drew Carey, some NFL cheerleaders and Miss Universe. Fie, fie, for shame.

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Lexington

One nation after all

Sep 9th 2004
From The Economist print edition

A surprisingly tough consensus about the need to go after terrorists and their backers

THREE years ago, America responded to the most horrific terrorist attacks in its history with a gigantic display of national unity. The country was festooned in the Stars and Stripes. Republicans and Democrats joined hands on the steps of the Capitol to sing “God Bless America”. People poured into churches, synagogues and mosques not just to express their grief but also to reaffirm the bonds that made them Americans.

What has happened to those bonds of unity in the intervening years? Look at the surface of politics, and they have been torn asunder. Look a little deeper, however, and you can see a new unity slowly evolving.

Evidence of division is all too abundant. On September 10th 2001, George Bush enjoyed a 51% approval rating. Today his approval rating is about the same. But these days the partisan emotions are much nastier. To Mr Bush's supporters he is the embodiment of the American spirit. To his detractors he is every sin under the sun rolled into one strutting Texan—a liar, a dolt, a war criminal, an imperialist, a dupe of the House of Saud. There was a time when Michael Moore would have been horse-whipped even by Democrats for producing “Fahrenheit 9/11”. Now he is feted for telling truth to power.

Mr Bush's more thoughtful critics have a long litany of justifiable complaints. They object to his willingness to exploit September 11th for partisan advantage in the 2002 mid-term elections: look at the way his henchmen demonised Max Cleland, a man who left three limbs behind in Vietnam, for being soft on terrorism, just so that the Republicans could nab his Senate seat in Georgia. And they object to the way Mr Bush rewrote history to project himself as the hero of September 11th, when in fact he was in hiding in Nebraska.

The Democrats point out that the Clinton administration was more sensitive to the threat of al-Qaeda than its successor. Condoleezza Rice was preparing a speech on national security threats on September 10th that didn't even mention al-Qaeda. They add that, in the summer of 2001, the Bush administration ignored blinking red lights suggesting that al-Qaeda was on the march—typified by the failure of the FBI's high command to respond to the arrest of Zacarias Moussaoui, an Islamic fanatic who had enrolled himself in flying school.

These partisan divisions are reinforced by even deeper ideological rifts. In the aftermath of September 11th, Mr Bush took two dramatic decisions that wore away at his support back home. First, America was

engaged in a global war on terrorism, so it was not enough to bring the perpetrators of the atrocities of September 11th to justice; America needed to carry the fight to the regimes that harboured al-Qaeda. Second, America had to take a root-and-branch approach to terrorism, reforming a dysfunctional Arab world that was failing its people and generating hatred of the United States. And where better to start this generation-long struggle than in Iraq, with its proven record of destabilising the region and demonising America?

It is hardly surprising that such a grandiose agenda, particularly when it came to be symbolised by a costly war, has unleashed profound partisan emotions. But look beneath all the wrangling and you discover a new consensus beginning to emerge. Americans may disagree about whether Mr Bush should have invaded Iraq. But most of them agree that America is engaged in a global war on terrorism. And most of them—including those furious Democrats—are willing to project American power abroad in order to win that war.

The most obvious sign of this consensus is America's growing military muscle. Compare the last budget adopted before September 11th and that for the current fiscal year: total federal spending on defence (including both Iraq and Afghanistan, homeland security and international affairs) has risen by more than 50%, from $354 billion to about $547 billion. This huge military build-up, the biggest since the Korean war, has enjoyed support from both Democrats and Republicans. Considerable bipartisan agreement propelled the creation of the gigantic Department of Homeland Security; and now Congress (again, not the White House) is pushing through the most far-reaching reorganisation of the intelligence services for 50 years.

Anyone who doubts the force of America's gathering consensus should study the Kerry campaign, which proposes little different from Mr Bush in terms of future action; or they should look at this summer's surprise bestseller. The 9/11 Commission Report is a thoroughly bipartisan production, the work of five leading Democrats and five leading Republicans. And it minces no words on the need for an aggressive approach to terrorism.

One report, one message

The report argues that there is no room for appeasement: the terrorists are willing to use any means to spread Islamic theocracy, and the only way to deal with them is either to destroy them or to leave them utterly isolated. The report endorses lots of nicey-nicey reforms in the Middle East, but it is also comfortable with projecting American power abroad. “Terrorism against American interests ‘over there’,” reads the report, “should be regarded just as we regard terrorism against America ‘over here’.” America's homeland is, in fact, “the planet”.

There is a precedent for this. Some people remember the start of the cold war as a time when the Wise Men implemented “containment” with no whiff of criticism from either side of the aisle. In fact, Americans argued furiously about what Richard Nixon dubbed Dean Acheson's “Cowardly College of Communist Containment”. Yet this clash eventually produced a consensus that lasted for decades. Perhaps the Bush administration has not been the ideal midwife for the new consensus. But that does not mean it does not exist.

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Argentina's economy

Heading for a carve-up

Sep 9th 2004 | BUENOS AIRES
From The Economist print edition

AFP

Can the Kirchner government continue to flourish through pugnacity?

Get article background

IN HIS 15 months in office, Néstor Kirchner, Argentina's president, has thrived on defiance. Privatised utilities, such as producers of electricity, are livid at his failure to agree to an increase in tariffs, many of which have been frozen since 2001. Mr Kirchner has refused to negotiate with the holders of $100 billion of defaulted debt. Last month, he went a step further, announcing that he was suspending Argentina's agreement with the IMF, to which it owes $14.5 billion. The reason? He wants to force through a unilateral debt swap and prevent the Fund from pushing for better terms for creditors.

So far, the president's hard-nosed tactics have generally paid off. The economy has recovered strongly from its catastrophic slump of 2001-02 (see chart). Mr Kirchner's approval rating, though no longer a lofty 80%, is still over 50%. The president regards the groups he antagonises as leftovers from a discredited, allegedly "neo-liberal", economic experiment. Yielding to their demands would hurt the 45% of Argentines who are now poor, his officials argue.

The next few months will put this strategy to the test. For now, the government is sitting pretty. Though starved of credit and operating largely on cash, the economy is still benefiting from the devaluation of 2002. Helped by growth, taxes on booming commodity exports and debt default, the government is rolling in money: it is heading for a primary surplus (ie, before interest payments) of 6% of GDP this year, double the target agreed with the IMF.

Officials insist the growth will last. The government has cash to spare to increase pensions and wages and, perhaps, to cut taxes. Investment, mainly by smaller firms, is back to where it was in the 1990s, says the economy minister, Roberto Lavagna. Imports of capital goods, he notes, are up 150% this year. Everyone expects growth to slow in 2005. But to the government's defenders this is a shift from a gallop

to a canter. “If we weren't in default, we would be a miracle economy,” says Roberto Frenkel, an economist at the University of Buenos Aires.

Others detect lameness. There was a stumble in April when power cuts shut down factories; seasonally adjusted, industrial output declined between June and July. Despite the surge in capital-goods imports, nearly two-thirds of investment is in construction, says Luis Secco, an economic consultant. Suppliers of such basic goods as steel and petrochemicals are reluctant to invest, even though their factories are running at full tilt. “Some large companies are disinvesting,” says Andrew Powell, an economist at Torcuato Di Tella University. “That's got to change.”

It is unlikely to do so as long as the government is improvising a new order while still locked in battle with the old. The new order entails solid public finances, but they have come partly from investment-inhibiting taxes on exports. The government wants what Mr Lavagna calls “a more robust role” for the state in the economy. But no one knows how big a piece the government wants and on what terms. It recently backed away from a commitment to reprivatise the postal system; it is creating a new state energy company.

Even the government's defenders do not justify its capricious treatment of the companies that run privatised public services. It has “a fighting attitude in this area that doesn't help,” says Javier González Fraga, an economist at the Catholic University. That attitude comes from both Mr Kirchner and the planning minister, Julio De Vido (a pair known in Buenos Aires as the “penguins”, because both come from the Patagonian province of Santa Cruz). Mr Lavagna appears to disagree, calling for “some additional increase in tariffs”, especially for energy.

Pugnacity on the debt carries risks, too. It makes sense for Argentina to drive a hard bargain with bond-holders, but not so hard that many refuse it. That would lead to lawsuits, casting a shadow of uncertainty over the public finances for years. So far bondholders have rejected Argentina's demand for a 75% writedown of the debt's value and its take-it-or-leave-it approach. Prices of defaulted bonds jumped briefly last week when Mr Lavagna appeared to offer an improvement in terms, but he now says the offer is “basically the same” as before. Despite this, the market price of the defaulted bonds suggests that investors expect a modest improvement when the government launches its bond swap, supposedly in the next few weeks.

A similar battle of nerves is under way with the IMF. Leaving aside the defaulted bonds, Argentina faces some $10.5 billion in other debt payments next year. It will struggle to make them without disbursements from the IMF, which wants a higher target for the primary surplus and structural reforms, such as one of provincial finance. The Fund, for its part, cannot easily pull the plug on a government that has met its fiscal targets, even if it has failed to win approval in Congress for structural reforms. There is room for compromise. So far, the battling Mr Kirchner has shown little talent for it.

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Argentina's judiciary

So who's guilty?

Sep 9th 2004 | BUENOS AIRES
From The Economist print edition

A terrorism trial turns into an indictment of the state

IT WAS Argentina's worst terrorist attack. In 1994, a bomb at a Jewish welfare centre in Buenos Aires killed 85 people and injured more than 250. In a decade of investigation, the courts heard 1,284 witnesses, assembled 588 volumes of evidence—and produced precisely nothing. On September 2nd, all five men charged with providing local support for the attack were acquitted. Among the victims' families, who belong to South America's largest Jewish community, the verdict was greeted with outrage. Thousands of them demonstrated outside Congress this week.

For Argentina, the case was an eloquent indictment of the country's lousy system of justice. It was marked by incompetence, corruption and official indifference. The court ordered that several judges involved in the case be investigated. One, Juan José Galeano, is alleged to have destroyed evidence and to have paid the main prosecution witness $400,000 for false testimony. It also called for investigations of officials in the government of Carlos Menem for allegedly helping to construct a false case. Argentine and Israeli intelligence officers have blamed the bombing on Hizbullah, an Islamic terror group, and on Iran's government (it denies involvement).

At least the court's verdict may have been an honest one. “The judges were not swayed by public opinion or political pressure. That is extremely unusual,” said Andrea Pochak of the Centre for Legal and Social Studies. The government of President Néstor Kirchner is now considering whether to set up an independent panel to investigate the case.

Mr Kirchner has made efforts to reform the judiciary. He has pushed Congress into removing four discredited Supreme Court judges; their replacements are politically independent, and were chosen under a new, more open, procedure. Many federal judges, too, have questionable records. Some may now be removed. The rot in the justice system goes deep. Curing it will require more than angry demonstrations.

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Politics in Mexico

A close-run thing

Sep 9th 2004 | XALAPA
From The Economist print edition

Something for everyone in an important state election

Get article background

Reuters

Herrera scraped through

CROOKED like an arm around the steamy coast of the Gulf of Mexico, Veracruz is Mexico's third most populous state. Politically, like the country as a whole, it divides three ways. So students of Mexican politics kept a close watch on last Sunday's election in the state, in search of pointers to a presidential contest due in July 2006. The main conclusion they are likely to draw is that the presidential vote will be a close-run thing.

In the end, the Institutional Revolutionary Party (PRI), long Mexico's ruling party and since 2000 its main opposition, appeared to have won in Veracruz—but by the narrowest of margins. Fidel Herrera, the PRI's candidate for governor, had 34.5% of the vote, less than one percentage point more than Gerardo Buganza of the conservative National Action Party (PAN) of President Vicente Fox. Dante Delgado, a popular former governor running for a centre-left coalition based on the Party of the Democratic Revolution, Mexico's third main party, polled a respectable 28.3%. The PAN called for a recount.

Veracruz has long been a PRI fief—the party had never lost a state election there. The result was much closer than it had expected. At the count in Xalapa, the state capital, party officials looked twitchy on Sunday night as the lead changed hands. Even so, the PRI can claim that it has hung on to all its state strongholds in a string of local elections in the past two years—a feat unthinkable to many pundits who forecast the party's disintegration in the aftermath of its traumatic defeat at the hands of Mr Fox in 2000. The Veracruz victory also continues the momentum of the PRI's national leader, Roberto Madrazo, in his quest to be the party's candidate in 2006. He appeared on stage at Mr Herrera's flamboyant closing rally. Both men belong to the PRI's traditionalist wing.

But for Mr Madrazo, there was cause for concern, too. The PRI struggled to win partly because the turnout was higher in Veracruz than in other recent state elections—as it is likely to be, too, in the presidential vote. For the first time, the party lost its majority in the state assembly, where the PAN displaced it as the largest party. Mr Fox's party also did well in mayoral contests across the state—consolation after a long string of miserable local-election results in recent months.

In Veracruz, the PAN benefited from the unpopularity of the outgoing PRI governor. That will not be a factor in the 2006 election. Perhaps the real lesson from Veracruz is that Mexican politics has become more competitive than ever before.

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Venezuela

Big Oil and a revolution

Sep 9th 2004 | CARACAS
From The Economist print edition

Multinationals queue up to pay court to Hugo Chávez

Reuters

That's dawn, not sunset

Get article background

ON THE north bank of the Orinoco river, beneath the vast and almost empty grasslands of central and eastern Venezuela, lies another Saudi Arabia. Once dismissed as the Orinoco tar belt, the area's huge deposits of super-heavy crude oil have barely been touched. But with oil prices predicted to stay high for the foreseeable future, demand increasing and fresh deposits of lighter crude in short supply, multinational oil companies are taking a second look at the Orinoco. They are also starting to explore for natural gas in Venezuelan waters.

Big Oil's liking for Venezuela is not without paradox. The country is run by Hugo Chávez, a former army officer who claims to be leading a nationalist “Bolivarian revolution”. He is fiercely opposed to what he says was the creeping privatisation of the oil industry before he came to power in 1998. Since then, he has made it harder for private firms to invest: a 2001 hydrocarbons law raised royalties and decreed that the government should hold a controlling stake in all future deals. Though some gas contracts have been agreed since then, none has for oil. But now Mr Chávez and the multinationals both need each other.

Petróleos de Venezuela (PDVSA), the giant state oil company, has been weakened by a power struggle in 2002-03 between its managers and the president. After a two-month strike, Mr Chávez took direct control of the firm: half of its workers were sacked, including nearly all the senior managers. According to government propaganda, PDVSA now belongs “to the people”. In practice, this means that a large chunk of its profits is turned over to the presidency—bypassing the scrutiny of Congress and the central bank—to pay for many of Mr Chávez's welfare and development programmes.

Officials at PDVSA and at the energy ministry insist that the company is pumping more oil, more cheaply, than before the strike. Plans call for it to invest some $4.5 billion this year in a bid to boost production further. Other sources in the industry retort that official production figures of around 3.2m barrels per day (b/d) are inflated by more than 500,000 barrels. They point out that PDVSA had spent only a fifth of its investment budget for this year by June. The reason? “Incompetence,” says a foreign diplomat. PDVSA's own production has declined steeply. Private operators now account for about 1m b/d of the state firm's total output, a figure that is likely to carry on rising.

So Mr Chávez needs investment by multinationals if he is to continue to finance his “revolution” and its welfare programmes. Unlike domestic businesses, foreigners are unlikely to interfere in politics. He is fortunate that the oil firms also need him. For all its problems, Venezuela is a large and relatively safe source of cheapish oil, close to the biggest market, the United States. Although they dislike both his hydrocarbons law and his “anti-imperialist” language, oil managers privately welcomed Mr Chávez's victory in a recall referendum on his presidency last month, since they saw it as offering greater political stability.

Even before the referendum, Chevron Texaco said it would sign an agreement to invest in the Orinoco tar belt. It specifically stated that it would do so under the new oil law. Since the vote, Shell and Total have said they, too, are interested in investing in the Orinoco. Others are lining up to do business in offshore gas.

In the longer term, Mr Chávez would like to reduce Venezuela's dependence on the multinationals and the United States' market. He has a grandiose scheme, called Petroamérica, for a Latin American energy conglomerate based on an alliance of state oil companies. Argentina's president, Néstor Kirchner, has shown interest. Brazil is less keen. But, for now, the Bolivarian revolution rests firmly on the shoulders of the foreign oil giants.

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The Caribbean

Ivan the terrible

Sep 9th 2004
From The Economist print edition

The Windward Islands reels from its worst storm in a decade

AP

Here lies Grenada

NO SOONER was Florida picking itself up from its second hurricane of the season than Ivan, an even more powerful storm, smashed through the poor and vulnerable Windward Islands this week. It was reported to have killed at least 15 people and perhaps more.

Worst hit was Grenada, an island of 90,000, which suffered “85% devastation”, according to a local member of parliament. Plantations of nutmeg, the main export, were flattened. The country's prime minister, Keith Mitchell, was evacuated to a British navy frigate after his house had been destroyed—one of many—by winds reported to have reached 160 mph (257 kph). The island's prison, dating from the 17th century, was also damaged, allowing inmates to escape. They were said to include several radical leftists held since the coup in 1983 that triggered an American invasion.

The hurricane also caused deaths and damage in neighbouring islands, such as Barbados and Tobago, and flooding in Venezuela. Jamaica, Cuba and the Netherlands Antilles, all in Ivan's possible path, were bracing themselves.

Ivan is the strongest storm to hit the Caribbean in a decade. Already, this year's hurricane season—which lasts till November—has been unusually destructive. Unlike Floridians, few in the Windward Islands are insured, or could be evacuated. In proportionate terms, Grenada and several of its neighbours are among the world's most indebted states. Their economies, dependent on tourism, offshore finance and tropical crops, are shaky. They will need help.

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Correction: the Canadian Arctic

Sep 9th 2004
From The Economist print edition

In our map of the Canadian Arctic ("Breaking the ice", August 21st), we mistakenly labelled Franklin Bay as Frobisher Bay, which is many hundreds of kilometres to the east at Baffin Island. Apologies.

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About sponsorship

China

No right to work

Sep 9th 2004 | BEIJING
From The Economist print edition

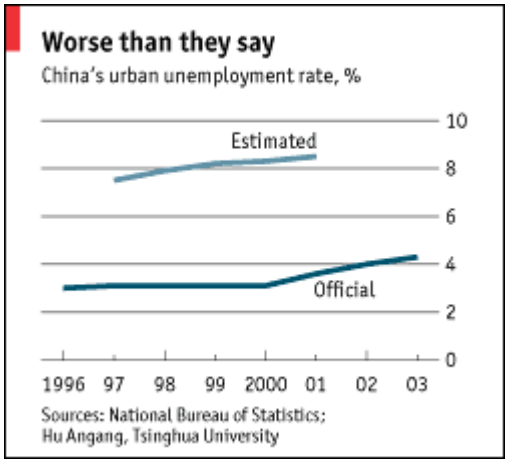
ImagineChina

China's official figures hugely understate a growing problem. But there is some good news as well

Get article background

"WE ARE a socialist country," China's prime minister, Wen Jiabao, said to loud applause last weekend at a conference on the re-employment of laid-off workers. "If we don't solve the employment problem, the lives of the masses will not improve." Mr Wen has declared unemployment to be a top priority for his administration. Most people agree that urban unemployment is growing, but a statistical quagmire of the government's making renders it difficult to assess how bad the problem really is.

Mr Wen's concerns about the problem appear to indicate that it is much worse than official figures suggest. Last year the government put the urban unemployment rate at 4.3%, which in most other countries would be regarded as close to full employment (see chart). The official target this year is to keep it under 4.7%. Officials do not seem worried about achieving this. But everyone knows the figure has little to do with reality.



It was only ten years ago that Chinese officials plucked up the courage to start using the word "unemployment"—a phenomenon previously regarded by the Communist Party as the preserve of exploitative capitalist countries. And none too soon. Over the past ten years, bloated state-owned enterprises and "collectives" (most of them in effect also state-owned) have shed much of their excess labour. Many have been simply closed. Between 1998 and 2002, such closures resulted in job losses for a staggering 24m workers, or about 10% of the urban labour force, by government reckoning.

The closures continue. Official newspapers reported this month that more big layoffs are imminent at some of the country's state-owned commercial banks, which have already shed some 250,000 staff and closed 45,000 offices since the late 1990s. The government says some 2,500 state-owned mines and large enterprises with a total staff of 5.1m are due to be shut in the coming four years.

So what is the real unemployment rate? The government's number only includes those who are officially registered as unemployed. It does not include those who have been laid off from state-owned enterprises but who still get a basic stipend for three years after losing their jobs. Taking them into account, and adjusting for other distortions, many Chinese analysts put the figure at around 8-10% in urban areas. A survey of five large cities conducted by academics at the University of Michigan and the Chinese Academy of Social Sciences found unemployment rose overall from 7.2% to 12.9% between 1996 and 2001.

Regional variations are considerable. By the government's very conservative calculations, Beijing's unemployment rate was 1.4% last year, compared with more than 6% in some cities of the north-east which have heavy concentrations of state-owned industries. The gap between the official estimate and reality is particularly evident in such areas, which have been plagued in recent years by frequent, albeit orderly, and mostly small, demonstrations by laid-off workers and retired employees. The unemployment rates in places like mining towns, dependent on just a few industries, are probably as high as 40%.

All this is unsettling to a government which still likes to call itself socialist (though many Chinese joke that America has a better claim to the description), which is struggling to buttress its legitimacy in the eyes of a cynical public, and which has an ingrained aversion to unrest. What Dorothy Solinger of the University of California at Irvine calls the government's “very efficient system of repression” helps keep high unemployment from triggering serious unrest. But in some areas at least, unemployment estimates may imply that the problem is more serious than it really is.

For one thing, the official figures cover only those who are registered urban residents. But in some big cities, 20-30% of the population is made up of migrant workers from the countryside, most of whom are not classified as city-dwellers. Migrant workers have very low unemployment rates, because if they cannot find work, they return to the countryside. A report published in 2002 said that some unofficial estimates putting unemployment at around 7% that year would have to be revised to 5% if the labour force were taken to include both registered residents and migrants. The migrants' numbers are also certainly higher than official figures show, although in recent weeks unusual labour shortages have been reported in some southern industrial areas, apparently because some migrants feel they are better off staying in the countryside where incomes are showing signs of recovery.

Another distortion is the high level of hidden employment. Some analysts believe that as much as 60% of laid-off workers (those not yet formally labelled as unemployed by the government but who supposedly have no work) are in fact employed informally.

Assessing the size of China's burgeoning private sector has always been a headache for official statisticians. Armies of census-takers are now in training for the national census of the economy due to be held at the end of the year. It will be the country's first. The survey is sure to find that private-sector employment is much higher than currently reported.

And what of the countryside? China ignores rural areas when calculating unemployment figures in the belief that, since villagers enjoy land-use rights, they can make a living. Even so, 150m or so rural-dwellers have little or nothing to do and in the coming years may move to urban areas. This vast reservoir will add to urban employment pressures just as China faces a baby-boom surge in the labour force and, thanks to heavy investment in capital-intensive production, diminishing employment gains from growth. “Socialist” China will have its work cut out.

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India and Pakistan

Putting it bluntly

Sep 9th 2004 | DELHI
From The Economist print edition

The peace process is still on track, but it's a slow one

AP

Singh and Kasuri, not quite eye to eye

TO THE relief of journalists, if not perhaps of diplomats, India and Pakistan have brought an undeclared end to what spokesmen called their “rhetoric-restraint regime”. Two days of talks in Delhi between their foreign ministers this week ended with the two men boasting of how well they got along personally, but roasting the other side's negotiating positions. This could be a good sign: no longer is detente so fragile that it could be shattered by a dash of limited diplomatic candour. But it also underscores how deep a rift still divides the two hostile and nuclear-armed neighbours.

The talks brought to a close the first stage of an eight-part “composite dialogue”, launched after the two countries agreed in January to make another bid for a lasting peace. The ministers, India's Natwar Singh and Pakistan's Khurshid Kasuri, were supposed to assess progress so far (modest) and what should happen next (more of the same).

Relations between the two countries have improved out of all recognition since they braced for war in 2002, after an attack on India's parliament building, presumed to have been conducted by Pakistani terrorists. Diplomatic ties have been normalised, a ceasefire along the “line of control” dividing Kashmir has been holding since last November and limited steps have been taken towards building mutual confidence between the two armies and nuclear-weapon command systems. But some important agreements have not been implemented, like a bus route across Kashmir and the opening of consulates in Mumbai and Karachi. And no progress at all has been made on the central dispute, over Kashmir's status.

Predictably, this was what caused the harsh words in the Delhi talks this week. Mr Singh repeated India's complaint that Pakistan was breaking a pledge given in January and alleged that in recent weeks it had stepped up the cross-border infiltration of armed militants into Indian-administered Kashmir. The 15-year old insurgency against Indian rule there is in one of its bloodier phases.

For his part, Mr Kasuri attacked India's treatment of civilians in Kashmir, and was defiant about Pakistan's determination to tackle the dispute. As “a matter of common sense”, progress has to be made if a lasting regional peace is to be achieved. He is right: India and Pakistan have fought three wars over Kashmir, most recently in 1999. But India questions why it should even discuss the territory with a government conniving in a vicious campaign of terrorism there. And it views Kashmir as just one of a long list of contentious issues that need discussion.

Sceptics in both countries, who have always thought these talks would go nowhere, are beginning to feel vindicated. In Pakistan, many fear India has no intention of ever seriously discussing Kashmir, except perhaps one day to receive an abject admission of Pakistani defeat. To them an Indian list of 72 “confidence-building measures” is nothing more than a list of 72 excuses for India to change the subject. Similarly, Indian hawks say too many Pakistani institutions have an interest in prolonging the Kashmiri conflict to allow it to end.

In Delhi, Mr Kasuri met some of the leaders of the Kashmiri separatist movement. One of them, Yasin Malik, says he has secured 1.45m names on a petition demanding a seat for Kashmir's people at the

talks. India insists it alone can represent them. But Mr Malik, who has toured 1,600 Kashmiri villages drumming up the signatures, claims India's contempt for human rights is worsening. A new generation of alienated youth is growing up, well able to provide cannon fodder for the rebellion, even if Pakistan abandons it. Mr Malik argues that any dialogue that excludes Kashmiris is incomplete and futile. The Pakistani government tends to agree.

Besides the prospect of an end to its people's agony, a settlement on Kashmir would also allow India and Pakistan to realise the full potential of co-operation. There is much interest, for example, in a proposal that until recently would have seemed utterly far-fetched: a gas pipeline from Iran to India, running across Pakistan. As Mr Kasuri put it, once the hostile neighbours really start co-operating “the sky is the limit”. But for now, the sky still seems very far away.

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Afghanistan

Defending the nation

Sep 9th 2004 | KABUL
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The new Afghan army is struggling

AFP

Get article background

THEY are not the smartest soldiers, with their sun-bleached uniforms and battered weapons. Their discipline is woeful, and their desertion rate high. It might, then, be alarming to discover what hopes have been invested in the Afghan National Army (ANA). An American-trained force, the ANA is supposed to defend the feeble new Afghan state against the warlords, bandits and religious crazies seeking to dismember it. On October 9th, the army faces its biggest test yet, when Afghans are due to vote in a presidential election, their first poll for a quarter of a century.

With warlords jostling for position before the election, and the Taliban murdering election workers, security is dreadful. At least 17 people, most of them children, have been blown up in Kabul and elsewhere in the past two weeks. In response, NATO has promised a modest increase in its force of 8,000 peacekeepers in Afghanistan, to around 10,000.

But the peacekeepers will remain mostly confined to Kabul, and the extra men are anyway unlikely to arrive until after the election—though they should at least be on hand for the parliamentary polls due next spring. They will provide scant comfort to the residents of western Afghanistan, where dozens were killed last month in battles between rival militias. Most of America's 18,000 soldiers in Afghanistan are meanwhile hunting for al-Qaeda fugitives in the south-east of the country, not keeping the peace. So, whether ready or not, the ANA's 13,400 ragged recruits must fill the breach.

Their chances of being able to do so look dire. Some ANA troops were dispatched to Herat, the capital of western Afghanistan, last month. This might have been a boost to the locals' morale, but the soldiers were not trusted to intervene in the fighting—no surprise, perhaps, given their eagerness to desert. Of the first units trained last year, up to half marched straight off the drill square and back to the fields. Among those warriors remaining, discipline is poor and fatal accidents common. In particular, American trainers despair of their Afghan charges' casual attitude towards the safety catches on their weapons. Your correspondent was recently fired on by a ham-fisted 19-year-old soldier, as he juggled his Kalashnikov rifle.

The soldiers' loyalty is doubted by some officials in Kabul but not by the American officers who recently accompanied them on a sweep of southern Zabul province, a Taliban stronghold. They praised the troops for plucking suspected insurgents from the villages—perhaps wrongly, since the Americans have often been taken advantage of in Afghanistan, their local allies being quick to accuse any rivals of being Taliban supporters. The Americans also praised the soldiers' readiness to fight. Many ANA men have been killed in scraps with insurgents, despite their pitiful $70-per-month wage and the lack of any compensation for the families of those who die in action.

Small wonder, then, that hardly any former militiamen have been enticed into the ANA's ranks. A year-long disarmament scheme was supposed to provide the new army with recruits, but is a shambles. Only 13,000 of an estimated 100,000 militiamen have been disarmed—though the estimate may be exaggerated. Originally, 40,000 militiamen were supposed to have been disarmed as a precondition for

holding the election at all. But that requirement now looks impossible, and has been quietly dropped. And of those who have been “volunteered” by their commanders for the UN's lavishly sponsored “disarmament, demobilisation and reintegration” process, few have opted to join the ANA. That their commanders were happy to dispense with them in the first place could suggest that they were unusually faint-hearted Afghans.

On a brief visit to Kabul last month, Donald Rumsfeld, America's defence secretary, said that progress was being made to build the ANA up towards its target strength of 70,000 by 2008. But he did not spell out what this progress was. Officials offered better news, meanwhile, saying that many army deserters had recently returned to the ranks. This could be because they preferred three meals a day to ploughing for a living. Then again, it could also be because the opium crop, Afghanistan's biggest, had recently been harvested.

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Indonesia

Not beaten yet

Sep 9th 2004
From The Economist print edition

Another bomb in Jakarta

AP

Australia takes another hit

THE casualty toll from a bomb on September 9th outside the Australian embassy in Jakarta—eight dead and about 100 injured—significantly understated the size of the blast. It was huge, much bigger than the explosion at the JW Marriott hotel in August 2003 that killed 12 people and injured 150. A ten-metre (33-foot) section of the embassy's security fence was blown away, the bomb left a crater several metres across, about five buildings in the immediate vicinity lost all their windows, many more suffered serious damage and the blast was felt up to 15km away.

As no one immediately claimed responsibility, the perpetrators' motives can only be guessed at. The fact that the bomb exploded at 10.30am suggests that the bombers were not seeking to kill many locals. The target was therefore probably Australia itself, and the Jakarta embassy merely a prominent Australian target.

There are two possibilities for wanting to strike at Australia. One is as a parallel to the Madrid bombing last March. Australia's prime minister, John Howard, is an outspoken member of the coalition fighting in Iraq and faces a tough general election on October 9th. The second is that the perpetrators wanted revenge for Australia's insistence on the prosecution of Abu Bakar Basyir, a militant Islamist cleric who was allegedly the head of Jemaah Islamiah (JI), a regional terrorist group with links to al-Qaeda. He is widely believed to have ordered the Bali bombing in 2002. Mr Basyir's trial for as yet unspecified terrorist acts is expected to begin within a month.

Another possibility is that the bombers' primary goal was to disrupt preparations for the second round of Indonesia's presidential election which is due to be held on September 20th, and that the embassy was chosen because any terrorist act there would generate widespread publicity. In any event, it is likely to undermine the incumbent president, Megawati Sukarnoputri, at the expense of her rival, Susilo Bambang Yudhoyono—a former general who is likely to be tough on terror. The bombers' motivation could, of course, have been a combination of all three.

Their identity, though, is another question. Two alleged members of the JI cell responsible for the Bali bombing are still at large and attention will at first focus on them. Separatists from Aceh are also suspects, but much less plausible ones. They probably do not have the means to carry out such a large bombing—and no obvious reason for wanting to strike Australia.

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Indonesia's religions

Learning to live together

Sep 9th 2004 | POSO
From The Economist print edition

In Sulawesi, at least, the killing is over, but problems remain

AP

SONGGO, a civil servant in the small town of Poso, on the mountainous island of Sulawesi, leans back in his chair and surveys his office with satisfaction. When sectarian strife in the area was at its height, in 2000, he did not dare come to work, he explains, since he is Christian, whereas the majority of the town's residents are Muslim. Instead, he took refuge in the Christian-dominated hinterland. But now, he says, there is no reason for fear. He points to a member of the local council, who has stopped by for a cup of tea, and declares, “He is Muslim; I am Christian—no problem.”

Life in Poso is returning to normal, after several years of on-and-off clashes that claimed perhaps 1,000 lives and forced tens of thousands more to flee their homes. The 2,000-odd police and soldiers now stationed in the area seem to spend most of their time drilling local children for independence-day parades. Brimob, a paramilitary police force, recently sent 200 of its officers home.

Ever since Muslim and Christian leaders signed a peace accord in the Sulawesi town of Malino in December 2001, refugees have been gradually trickling home. Christians and Muslims now rub shoulders in Poso market. The roadblocks that used to keep them out of one another's neighbourhoods have gone. The UN and all manner of local and foreign NGOs have organised reconciliation meetings, psychological counselling for victims of the fighting and even inter-faith volleyball matches. The Christian villagers of Sepe, who had to rebuild their church three times after it was destroyed in repeated acts of arson, proudly point out a Muslim woman who recently began lodging with a local family. The ice-lolly vendor gingerly manoeuvring his cart around some foraging pigs is a Muslim too, they say.

But just up the road, a few hundred Christian refugees live in hastily erected shacks in a dusty clearing. Some would like to return home, explains Leni, their pastor. But their village, Toyado, was also destroyed by arson, and the money the government promised for rebuilding has not arrived. As everywhere in Indonesia, corruption is part of the problem: a local bureaucrat is currently on trial for embezzling funds intended for refugees.

Security, too, remains a concern. Last year, one of the refugees returned to Toyado to tend his land. But the village is surrounded by Muslim settlements, and he disappeared. Since then, few others have dared to come back. Sectarian attacks, occasional though they are, keep tensions between the two communities high. In July, for example, hit-and-run assailants shot a pastor dead in Palu, a provincial capital, as she preached her sermon. No wonder, comments Nely, another pastor and signatory of the Malino accord, that Christians in mixed towns are afraid to go to church.

The police claim that local recruits to extremist Muslim groups, such as Laskar Jihad, are behind the provocations. Jemaah Islamiah, the terrorist group behind several deadly bombings in Indonesia, has also been active in Poso. In March, five of its members were convicted under Indonesia's now-defunct terrorism laws for plotting attacks in the area. But most attacks go unpunished, the police say, for lack of staff or intimidation of witnesses. Earlier this year, the special investigation team sent from Jakarta to help catch sectarian trouble-makers was recalled. So far, community leaders are sticking to the formula agreed on at Malino, that such attacks should be treated as common crimes, and handled by the police—but Christians are beginning to gripe.

Politics is another source of tension. A heated race between Christian and Muslim candidates for the post of regent (head of the local government), stoked the conflict back in 1999. Another election is due next year, and the sectarian lines are clearly drawn: the Peace and Prosperity Party, a Christian outfit, now dominates the local assembly. Both Muslim and Christian politicians agree that some sort of power-sharing should be established. Unfortunately, though, they have yet to come up with a formula.

The biggest concern of all is the poor health of the regional economy. The Poso area receives even less investment than the minimal amount received elsewhere in Indonesia, thanks to its remoteness and reputation for violence. Mr Songgo begged your correspondent to put in a good word about local business opportunities. But the sad truth is that there are few, especially for the poorer, Christian farmers in the highlands, who are gradually being displaced by richer and better-connected Muslim migrants. The local government is making an effort to bridge this “social gap” through economic aid schemes, explains Burhanuddin, a Muslim signatory to the Malino accord. But money is in short supply. There are still plenty of unemployed and disaffected youths hanging around, Poso's deputy police chief points out—just the sort of people who started the whole sectarian dispute back in 1998.

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Iraq

Is it getting safer?

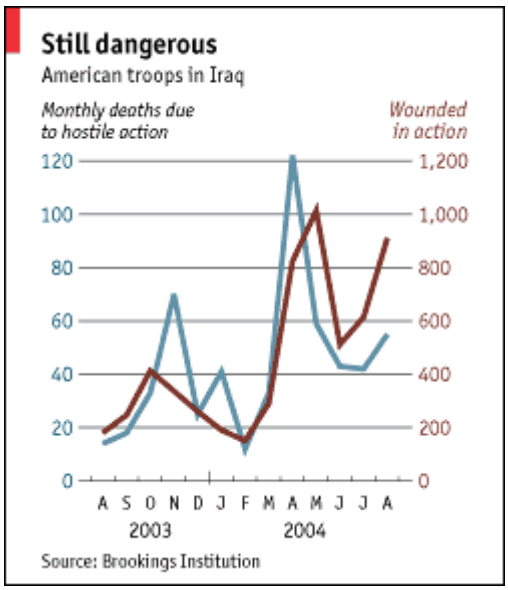
Sep 9th 2004
From The Economist print edition

AP

The interim government is struggling to improve Iraq's security

Get article background

TWO months after Iyad Allawi's caretaker government formally took over from an American proconsul, there is no sign that it is making Iraq safer. Apart from the Kurdish areas in the north-east, it is certainly not appreciably safer for the American troops still bearing the brunt of the battle against the insurgents (see chart). It remains just as dangerous for Iraq's fledgling police and soldiers—and for civilians, who continue to be caught in the crossfire and blown up by roadside bombs. The truce between Mr Allawi's government and the Shia rebels who follow Muqtada al-Sadr remains shaky. The kidnapping of foreigners continues unabated, despite a *fatwa* denouncing the practice recently issued by an influential Sunni cleric; foreign-aid outfits are thinking of pulling out, after this week's kidnapping of two female Italian aid workers. Since Mr Allawi took over, another Sunni town has become a no-go area for both the Americans and Iraq's pro-government security services, and several other spots are going the same way.



As a result, many of the indices of reconstruction—the flow of oil for export, the availability of cooking oil and the reliability of the electricity supply—are scarcely better than in the last days of Saddam Hussein. This does not mean that things on the whole, including security, have got worse since Mr Allawi took over. But they have not got better. There is no sign yet of a pivotal moment when the Iraqis feel their country tilting towards greater security and normality, measured by fewer attacks on the forces protecting them and fewer violent deaths. There is still no certainty that Mr Allawi can bring the country to a proper election in January, which moderate Iraqis hope will be a morale-boosting landmark, leading to the eventual departure of foreign troops that virtually all their countrymen desire.

The most visible recent threat to stability remains Mr Sadr's Mahdi Army, which Mr Allawi had hoped to constrain after its removal last month from Najaf, the Shias' holiest city, and the start of an informal truce in Sadr City, the north-east Baghdad slumland that is home to some 2m mostly poor and surly Shias. Mr Sadr's militia is apparently reburying road mines there that it had dismantled only days before and is rewiring the bomb-detonators it had disconnected. Though the Americans say

that on September 7th they killed 34 truce-breaking Iraqi rebels there, a swathe of the capital once again seems to be out of the government's control.

Every time Mr Allawi wins back part of his country, another bit seems to slip away. After Mr Sadr's latest three-week rebellion, Mr Allawi's forces appear to have restored order in Najaf. But this week Lieut-General Thomas Metz, the Americans' overall commander in Iraq, admitted that the country has three no-go areas: Sadr City, Fallujah and Samarra, a Sunni town north of Baghdad. On September 9th, however, US and Iraqi forces ventured into Samarra to install a mayor.

In several smaller towns control seems to ebb and flow from week to week. Smaller, rebel-dominated towns include Kufa, home of the Sadr family; Majar al-Kabir, another lawless Shia town in the south, where there is still an outdoor arms market; and Latifiya, on the main road south of Baghdad, a town notorious for its fiercely puritanical Sunnis—and for attacks on Iraqi Shias as well as foreigners.

Not surprisingly, such no-go and tread-very-lightly zones offer bases for insurgents, including suicide-bombers, to prepare big terror attacks on Iraqi and foreign civilians. Suicide-bombings, often attributed to outsiders, may have decreased a bit since the steely Mr Allawi took over, perhaps because of his new intelligence agency, which may be infiltrating some extremist groups, and to the periodic destruction of alleged “terrorist safe houses”.

Moreover, many Iraqis sympathetic to the rebels when they attack the Americans or their foreign allies disapprove of attacks on the Iraqi security forces—and may, as a result, be more loth than before to harbour the attackers. Or there may just be a lull before the storm. Some Iraqis predict a flurry of attacks on the eve of the American presidential election in November, with the rebels hoping that they may thereby help bring down George Bush.

If the no-go zones endure or even spread, the rebels will also hope to prevent or render illegitimate Iraq's general election due in January. Maybe, say Mr Allawi's people, such areas can simply be fenced off and rendered voteless. But it would be hard to disfranchise 1m-plus voters in Sadr City. Hence Mr Allawi is trying his hardest to accommodate the Sadrists there without simply handing over power to them. One suggested deal would mean the Sadrists giving up their heavy weapons but not their lighter ones. They are also demanding the release of all pro-Sadr prisoners—and a promise that foreign troops will stay out of their zone.

Tribal leaders in Samarra are making similar demands as a precondition for turning that town over to the Iraqi police and national guard. The Muslim fundamentalists in control of Fallujah are probably too extreme to consider such a deal. But there is still a chance that peace bargains in Sadr City and Samarra could allow for a more or less respectable election, though it is hard to see any parties opposed to the rebels daring to campaign there.

Yet, by avoiding the no-go areas, the Americans have not become any safer themselves. Last month's death toll of 55 was the highest since April and the second highest since last November. The number of attacks on foreign forces rose from 400 in February to a record 1,500 last month, according to the Brookings Institution in Washington, DC. This week a suicide-bomber in a car near Fallujah killed seven marines. More than 1,000 members of America's armed forces have now died in Iraq since the invasion.

In an effort to boost morale, the American defence secretary, Donald Rumsfeld, unusually issued a figure for the number of rebels killed last month: between 1,500 and 2,500, he said. But General Richard Myers, the chairman of the joint chiefs of staff, declared that “the enemy is becoming more sophisticated in its efforts to destabilise the country”. The Iraqi civilian death rate, though harder to measure, remains high: at least 11,700 are thought to have died since the fall of Mr Hussein.

The Americans cannot reduce the size of their forces for fear that the rebels would make greater advances against the Iraqi forces; the number of American troops is up from 115,000 in February to some 140,000 today, while only 95,000 members of Iraq's security forces, the Americans now say, are ready to take up the slack—a sharp downward revision of the previously cited figure of 200,000. By contrast, the Americans' estimate of 5,000 rebels last year has jumped to 20,000. Plainly there is no light

yet at the end of Mr Allawi's tunnel to normality.

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Iraqi education

A little learning is a dangerous thing

Sep 9th 2004 | BAGHDAD
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The omens for the new academic year are not reassuring

AP

Sparky new electricians

WHEN Iraqi freshmen arrive on campus this autumn, they will peruse course lists that include “Democracy 101”—a very basic course, American-style, for novices—and an “Introduction to Human Rights.” But it is uncertain whether students at Iraq's 22 universities, once among the Middle East's best, will actually enjoy the freedoms of speech and academic inquiry.

Earlier this year, radical Islamist groups shut down campuses and student elections were cancelled for fear of violence. One academic group says that in the past school year some 250 university teachers, including the head of Baghdad University, have been assassinated. Most of the 1,400-plus teachers sacked last year under America's deBaathification proclamation are back.

Before they handed over formal power in June, the Americans laid a framework for promoting democracy in education. This included a procedure for voting to hire and fire administrators and a declaration of academic freedom, signed by all university heads, to forbid religious and political intimidation.

Iraq's new minister of higher education, Taher al-Bakaa, has plans to usher Iraqi academics into the 21st century. He wants a more market-oriented system for students to find their own jobs after graduation. “It's not the government's responsibility any more,” he says. He also wants to spend more of the ministry's budget of $184m on technical programmes to help rebuild the country.

But money is short. Iraq's universities probably need $1.2 billion just for rebuilding. So far, less than $40m in foreign aid has arrived, about 15% of the money given to Iraq's primary and secondary schools. University scientists still work without electricity or Bunsen burners. At Baghdad's al-Mustansiriyah University, a political party provided a new internet lab; other gifts have come from influence-seeking Iran. “We've done a lot but we haven't been able to give them much material support,” said John Agresto, an American adviser who left in frustration in June.

Why have the universities been left behind? Ziad Razzaq Aswad, who served under Saddam Hussein but managed to become Iraq's first post-Saddam minister for higher education with the help of an Islamist party, did not get along with the World Bank. Disappointed Iraqi intellectuals had hoped for scholarships, twinning programmes, exchanges and partnerships. But few American teachers have been willing to come to Iraq, in the face of terror and after a war most of them disavowed.

Some Iraqi students are struggling to hoist the banner of democracy. But their curriculums are out of date, they have little access to the outside world, they increasingly resent America, and more of them are prey to religious groups on campus which tell girls to cover their heads and which break up romances.

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Lebanon and Syria

Limboland

Sep 9th 2004 | BEIRUT
From The Economist print edition

Despite the demands of the United Nations, Syria is refusing to loosen its clammy grip on Lebanon

Get article background

AP

The lovely liaison of Lahoud and Assad

TWO potentially crucial votes faced Lebanon last week. Oddly, its people took part in neither, and neither vote produced obvious change. Yet the voting tallies did serve to clarify where the battle lines lie, in what has until recently been a smoke-shrouded struggle over the long-troubled country's fate.

The UN Security Council voted, with nine in favour against six abstentions, to ask Syria to remove the troops it has kept in Lebanon for 28 years, to ask Lebanon to hold a proper presidential election according to its constitution and to get it to disband all irregular militias. In other words, the UN told Lebanon to start acting like a normal, sovereign state.

Within hours, however, Lebanon's parliament defied the order, voting to twist its constitutional rules so as to extend the term of Emile Lahoud, the current, doggedly pro-Syrian president. Syria's 15,000 soldiers stayed put in the east of the country, as did the guerrillas of Hizbullah, a Shia party accused of terrorism by America (among others), in the country's south. Basking in congratulations from Lebanon's intelligence services, Hizbullah and other actors aligned with Syria, Mr Lahoud vowed to “bolster ties between the army and the national resistance”, Lebanese pol-speak for Hizbullah's fighters, and to “strengthen co-operation and co-ordination with our Syrian brothers”.

Perhaps nothing in Lebanon will change. It is quite fashionable in the Middle East to defy UN resolutions and, though the Americans recently slapped sanctions on Syria, their troubles in next-door Iraq may have reduced their appetite for whipping Arab dictatorships into line.

As for the hapless Lebanese, their resentment of Syria, a place they tend to regard as thuggish and backward, certainly runs deep. Many blame Syrian meddling for what they see as the decline of traditions that once made the country prosper, and still make it unique among Arab states. They see civil rights, freedom of speech, open trade and the judiciary all under threat. The imposed alliance with Syria also exposes Lebanon to the frequent and sometimes violent wrath of its other neighbour, Israel.

But such resentment is still, more than a decade after the end of the country's 15-year civil war, tempered by a fear of rocking Lebanon's own boat—leaky and rudderless but still surprisingly comfortable. Besides, Syria's hold over Lebanon is not simply a matter of armed force. The two countries' common language, culture and history, plus the fact that in the end it was Syrian power that brought Lebanon's war to a close, are important factors.

Moreover, business interests, both licit and not, tie much of Beirut's political class to Damascus's inner circle. Several Lebanese institutions, including the army and the courts, have been thoroughly infiltrated by Syria's friends, and are in effect used to intimidate the country's perceived enemies. And Hizbullah is not Syria's only ideological ally in Lebanon. A range of Arab nationalist, Islamist and other groups also see Damascus as a bulwark against the supposed neo-imperialist and Zionist designs of the West. Demography bolsters these forces, as Lebanon's Christians, who tend to be pro-western, emigrate in

larger numbers than other sects.

Syria has, over the decades, seen off many challenges to its creeping dominance of Lebanon. During the civil war its army ruthlessly crushed first Palestinian, then Christian militias. Syria's Shia allies bloodied American and French peacekeeping forces in the 1980s, and later hounded Israel from its long and messy occupation of south Lebanon.

This time, Syria and its local proxies had no need for overt force. It is said in Beirut that some politicians, including the billionaire prime minister, Rafik Hariri, who has often clashed with Mr Lahoud and has angered the government in Damascus by trying to steer independently, got blunter orders than usual to do Syria's bidding. But other MPs voted to keep Mr Lahoud because they are surer of Syria's staying power than of the UN Security Council's will to impose its wishes.

Yet it would be a mistake to assume that this latest round marks another clear-cut Syrian victory, as Syrian officials have portrayed it. Syria's president, Bashar Assad, has, in effect, thrown down a gauntlet to both America and France—the latter being Lebanon's former coloniser, as well as the historic defender of Christian Lebanese interests, and now the main instigator of Security Council action. He has also produced an issue that may help Lebanon's own fragmented opposition to coalesce.

In the past, Syria has managed to counter America's general hostility by feeding officials in Washington with useful intelligence or by playing the Americans off against friendlier Europeans and Arabs. But America has hardened its policy in the wake of its Iraqi difficulties and is ever more in tune with Syria's mortal enemy, Israel. Despite Syrian moves to assuage them, American suspicions linger that the government is subtly aiding both the Sunni and the Shia resistance movements in Iraq, with the long-term goal of tightening Syria's 20-year-old alliance with Iran, another pariah state in American eyes.

Bar Iran, Syria's other historic friendships have also frayed. The European Union, on the brink of signing a big trade deal last year, backed off amid worries about Syria's human-rights record and chemical-weapon stocks. Other regional powers, such as Turkey, Saudi Arabia and Egypt, are loth to back Syria with much more than talk. Syria faces internal troubles, too, including a feeble economy and unrest among its large Kurdish minority.

It may be that Syria's very weakness is what has prompted it to tighten its grip on Lebanon. It may also be that outside powers, however much they would like to see Lebanon reborn as the model pro-western state it once nearly was, do not ultimately care enough about the little country to sustain pressure on Syria to relinquish it. But Mr Assad should not count on that.

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Sudan

The killing continues

Sep 9th 2004 | KRINDIN CAMP, WEST DARFUR
From The Economist print edition

Diplomacy drags on as Darfuris die

IN A camp for displaced Darfuris, a seven-year-old black African girl tells how she was raped by an Arab from a nearby village. Sudan's foreign minister, Mustafa Osman Ismail, who is inspecting the camp, does not believe her. With a sceptical smile, he suggests that she should go and talk to "the women". But she is probably telling the truth. A police officer later confirms that the alleged rapist has been arrested, and that the child's bloody clothing is being held as evidence.

Mr Ismail is the presentable face of the Sudanese regime: the charmer sent to persuade foreigners that it is not as murderous as everyone thinks. Shortly after the camp's inspection, which he undertook alongside Jan Pronk, the UN's envoy to Sudan, Mr Ismail flew to Tokyo to persuade diplomats there that the death toll in Darfur, Sudan's scorched western region, is not 50,000, as the UN claims, but probably no more than 5,000. And those deaths have occurred, not as a result of systematic ethnic cleansing orchestrated by the Sudanese government, but during a "tribal conflict", he claimed. He's a plausible man, Mr Ismail, but the facts belie his sales patter.

The UN reported this week that the *janjaweed*, a government-backed Arab militia that has driven 1.2m black African Darfuris from their homes, murdered thousands and raped even more, was continuing to attack civilians. This is despite the government's promise to curb it, as the UN Security Council had ordered it to by the end of last month.

On September 8th, a new draft resolution, which America plans to submit to the UN Security Council, was leaked. It called for more African Union (AU) soldiers to be sent to Darfur to join the 400 already there monitoring a much-broken ceasefire between the government and Darfuri rebel groups, and for those troops to be given greater powers to protect civilians. It threatened sanctions against Sudan's oil industry if the government did not let more monitors in, and told the regime to try harder to disarm the *janjaweed* and prosecute its more vicious leaders. It was not clear whether the Security Council's other members would support the resolution. Russia and China appeared reluctant.

The Sudanese government says any attempt by foreign troops to do more than observe the situation will be violently rebuffed. Mr Ismail said that AU monitors in Darfur should tread carefully, or they might find themselves attacked by suicide-bombers, like the American forces in Iraq, though Sudan has no tradition of suicide-bombing. Meanwhile, in Nigeria, peace talks between the government in Khartoum and the Darfuri rebels appeared to have flagged, though AU mediators were struggling to revive them.

Sudan's regime looks nervous. On the evening of September 7th, soldiers with semi-automatic weapons in Khartoum were stopping and searching cars. Later, 33 members of an opposition Islamist party were reported to have been arrested, allegedly because they had conspired with a foreign power to destabilise Darfur.

The government portrays western moral outrage over Darfur as a façade. President Omar Bashir recently told a women's meeting that the West's real motive was to grab Sudanese oil and gold reserves. Many northern, Arabised Sudanese believe him. Local journalists visiting a camp in West Darfur this week accused the refugees there of parroting foreign propaganda. "Do you even know what the term 'ethnic cleansing' means?" asked one, "Or have you been told to say it?"

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Burundi

A massacre is investigated

Sep 9th 2004
From The Economist print edition

The light shed on an atrocity in Burundi could affect the whole region

AFP

He knew whodunnit

AMID the confusion of conflicts in central Africa, the truth can be elusive, but the question of "who killed whom?" is usually of vast political significance. The Great Lakes region, which includes Rwanda, Burundi and eastern Congo, is swaying on the brink of another ghastly war. The armed groups whose leaders think they might benefit from renewed fighting are constantly on the lookout for a pretext.

Last month, it looked as if they had found one. On August 13th, 152 people were slaughtered in the Gatumba refugee camp in Burundi. The victims' identity was never in doubt. They were almost all Congolese Tutsis, who had fled from fighting in neighbouring Congo. Who killed them, however, was unclear. The region's warmongers immediately seized on whichever version of events best served their purposes.

Rwanda's Tutsi-led government, which often cites the presence of genocidal Hutu militias in Congo to justify its own military adventures there, declared that the killers were indeed murderous Hutus based in Congo. Its allies in Burundi and Congo echoed the charge. Both Rwanda and Burundi said they might invade Congo again if the Congolese government could not keep its genocidal Hutu militias in check.

But an investigation released this week by Human Rights Watch, a lobby group whose research is always fastidious, found this story to be bunk. Extensive interviews with survivors, despite obstruction by Tutsi leaders, revealed that the attackers almost all spoke Kirundi, the language of Burundi. Indeed, they sang religious songs in Kirundi as they shot and burnt their victims to death. This and other features of the attack are typical of the FNL, a Burundian Hutu rebel group, which quickly claimed responsibility for the massacre.

Human Rights Watch concludes that the FNL is telling the truth about this, but that its justification for the carnage is phoney. FNL sympathisers have been spreading, by e-mail, the story that Tutsi guerrillas were using the Gatumba camp as a base from which to attack Congo, and that they fought back with heavy weapons when attacked. In fact, the camp's residents were unarmed, and most were women or children.

Another finding was that UN peacekeepers should not have been blamed, as they loudly were, for failing to prevent the massacre. They could not possibly have done so, because they did not learn of it until after it was over. The scandal is that the 100-odd Burundian soldiers who were garrisoned within earshot of the killings neither made any effort to help nor alerted the UN. Why they were content to let so many Tutsis die remains a mystery.

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French politics

The Nicolas v Jacques show

Sep 9th 2004 | PARIS
From The Economist print edition

The consequences of Nicolas Sarkozy taking over the president's party

Get article background

THE centre-right politician was restless, hungry for the top job, keen to build himself a platform for a presidential bid while still in his 40s. His relations with the sitting president were dreadful. The centre-right had done disastrously in recent regional polls. So he quit the government, and built up a party machine to promote his own electoral ends.

The year was 1976, and the politician was Jacques Chirac. It took him another 19 years to get to the presidency. Today, his most bitter rival and the man who so eerily resembles him in his early days, Nicolas Sarkozy, is hoping that he can achieve the same goal in a fraction of the time.

The deal between the veteran Gaullist president and his brazen young finance minister was finally tied up quietly last week, as the country was distracted by the kidnapping of two French journalists in Iraq. Under the pact, Mr Chirac agreed not to block Mr Sarkozy's candidature to be head of the ruling party, the Union for a Popular Movement (UMP). In return, Mr Sarkozy agreed to leave the government.

For Mr Chirac, this was a much-needed reassertion of his authority. In July he declared firmly that he would fire any minister who became the party head, since this would undermine the prime minister's authority. Although Mr Sarkozy at first hoped that he could flout such a rule, in the end he agreed to go.

Yet the greater victory, symbolically and substantively, has gone to Mr Sarkozy. Symbolically, the upstart outsider has grabbed hold of the president's personal war machine (other minor candidates may stay in the race, but the result of the party members' vote in November is now a foregone conclusion). This party, after all, is the direct descendant of the one that Mr Chirac founded in 1976. In its most recent incarnation, as the UMP, it was designed solely to elect a centre-right government and then become a platform for Mr Chirac's chosen successor, Alain Juppé.

When, instead, Mr Juppé had to quit politics after being convicted of political corruption in January, *la chiraquie*, the president's circle, stepped up efforts to keep the party out of Mr Sarkozy's hands. "*Tout sauf Sarkozy*" (Anyone but Sarkozy) was its mantra, as it sought to marginalise the man whom the president has distrusted ever since he backed a rival presidential candidate, Edouard Balladur, in 1995.

Yet a few months on, Mr Chirac has proved powerless to stop the party falling into Mr Sarkozy's hands.

Substantively, the UMP will supply Mr Sarkozy with a useful electoral war-chest—parties now get a state subsidy and cannot accept private donations—plus a power base from which to prepare his 2007 presidential bid. Between now and November, when Mr Sarkozy leaves the finance ministry, he will build up his own team to replace the *juppéistes* now installed at party headquarters. Handily, he will also be able to design the procedure for selecting a presidential candidate for 2007. He intends to reinvigorate the party, clean up its image, and turn it into a sort of think-tank that can refresh the political right. In short, Mr Sarkozy's UMP will be his personal campaign-team-in-waiting.

There are risks in all this for the ambitious Mr Sarkozy, however. One is that he will struggle, as UMP head, to sustain his gravity-defying popularity. At 54%, he comfortably beats other government figures, such as Dominique de Villepin (36%) and Jean-Pierre Raffarin (25%), the prime minister, according to TNS Sofres, a pollster. While in government, both at finance and, previously, at the interior ministry, Mr Sarkozy impressed voters with his hyperactive work rate and ability to make things happen, whatever the issue. The crime rate fell; prostitutes were driven from the streets; supermarkets agreed to drop prices; Alstom, an industrial firm, was saved from bankruptcy. At the UMP, he will have no such results to show off.

Second, Mr Sarkozy will have to tread a fine line between the obligations of loyalty and the temptations of independence. Mr Raffarin loaded a speech this weekend welcoming his finance minister's candidacy with nervous appeals for “loyalty”. “*Tout sauf la division*” (Anything but division) is the new rallying cry. Mr Sarkozy's response? He agreed in principle to support the government, but not through “constraint, habit, or discipline”.

This could spell trouble not only for the president but also for Mr Raffarin, whose credibility and, indeed, job have been at stake throughout the Chirac-Sarkozy struggle. Even under Mr Juppé, the UMP occasionally defied Mr Chirac: for instance, it is against Turkey's entry into the European Union, which the president supports. Under Mr Juppé's far less biddable successor, such clashes are likely to multiply. Although mindful of the risk that a split right might help the left, Mr Sarkozy's popular appeal depends heavily on his differences with the president.

All of which makes for uncertain policymaking ahead. Mr Sarkozy's own credibility as finance minister is waning. He made much of an agreement this week that he had secured from French insurance firms to invest a further €6 billion ($7 billion) in French private equity, to help stimulate small businesses and high-tech start-ups. Yet this measure, based on the curious assumption that such funds cannot spot good financial returns by themselves, is largely empty. It carries no means of enforcement and refers simply to a target of boosting such investment by 2007, by which time Mr Sarkozy will be gone.

As for his successor, not yet chosen, he is unlikely to have the same clout. Possibilities include Philippe Douste-Blazy, the health minister, and François Fillon, at education. But more likely may be Hervé Gaymard, the 44-year-old farm minister and former junior finance minister, whose loyalty to Mr Chirac is absolute.

Furthermore, the presidential candidate-in-waiting may be even more tempted by shameless populism when outside government than he has been within it. As it is, Mr Sarkozy's economically liberal convictions have been tempered by the realities of French politics, where protectionism and interventionism are easy vote-winners. To popular acclaim, he bailed out Alstom, and pulled off a French private-sector drugs merger to fend off a foreign bid.

To the indignation of new EU members and the bafflement of others, Mr Sarkozy floated a proposal this week to deny EU regional aid to countries with low corporate-tax rates. Given fears of competition, this was an attempt to portray himself as protector of French jobs. Sadly, despite his demonstrated talent for confounding such misguided thinking by explaining, in lay terms, the harsh realities of a global economy, there may be more such appeals to populism in store.

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Austrian privatisation

How not to sell things

Sep 9th 2004 | VIENNA
From The Economist print edition

Defending puny national champions

KARL-HEINZ GRASSER, Austria's finance minister, is an admirer of Friedrich Hayek, the Austrian-born free-market economist who inspired Margaret Thatcher. But he has recently found himself defending state-controlled national champions—and thus sitting rather closer to his French counterpart, Nicolas Sarkozy, than to the iron lady.

In an echo of Mr Sarkozy's action earlier this year, when he saw off a bid by Germany's engineering giant, Siemens, for parts of France's Alstom group, Mr Grasser this week rebuffed Siemens for taking an interest in VA Technologie, a smaller Austrian firm. He even authorised the state holding group, ÖIAG, to take up its share of a planned VA Tech capital increase, to maintain its stake at 15%. Siemens had not even made a formal bid. But its announcement of interest in parts of VA Tech last week caused a furore in Austria, where any sale of industrial assets to foreigners tends to be a hot political issue.

Last month, Wolfgang Schüssel, the chancellor, forced Mr Grasser to walk away from a deal to sell the state's 42% stake in Telekom Austria to Switzerland's Swisscom, for about €3.2 billion ($3.9 billion). The finance ministry also shelved plans to sell a quarter of the state-owned postal service to Germany's Deutsche Post. Mr Schüssel does not want to take any chances after last year's storm over the sale of Voestalpine, a steelmaker, almost led his coalition partner, the far-right Freedom Party, to leave the government. Soon afterwards, Mr Schüssel's centre-right People's Party did badly in regional elections.

Sensing the prevailing public mood, Jörg Haider, the driving force in the Freedom Party, has joined trade unions, opposition Social Democrats and most of the country's opinion-makers to defend the remaining “national champions” against foreigners. Conveniently his tactics are embarrassing Mr Grasser, a former Haider protégé who defected to Mr Schüssel's side two years ago.

All this leaves privatisation, nominally a government priority, in tatters. There is not enough domestic capital to produce “hard-core” shareholders for all companies. Selling shares only on the tiny Vienna bourse would mean low prices, which would be bad for the budget and still leave privatised companies vulnerable to unwanted takeover bids. The state may be stuck with its shareholdings for years to come—and with Brussels competition authorities watching for hints of illegal state aids.

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Poland

Sunny prospects

Sep 9th 2004 | WARSAW
From The Economist print edition

An upturn in the Polish economy bolsters its government as well

Get article background

THAT rarest of beasts, the happy farmer, has made an unexpected appearance in rural Poland this year, after the country's entry into the European Union on May 1st. Food prices have soared thanks to the opening of new markets in western Europe, helped by the arrival of big buyers from Germany and Scandinavia hunting for cheap beef and fruit. Hitherto truculent Polish farmers, who still make up a fifth of the country's workforce, may turn even more pro-European when their first subsidy payments arrive next month, courtesy of Europe's munificent common agricultural policy.

At this rate, Poland may even become a supporter of the EU's new constitution, despite having fought it so fiercely when it was under negotiation last year. A referendum on the constitution is pencilled in for late next year.

Poland's shoppers may be rather less enthusiastic about the EU, however. Fruit prices rose by 11% and meat prices by 5% in the month of July alone. The central bank says that food is mainly responsible for a rise in annual inflation to 4.6% in July, well above its target range. It has raised interest rates three times in the past three months, and looks likely to continue, pointing to the risk of rising wage demands.

But after three years of stagnation, growth is welcome even if it brings a few pains with it. Polish GDP rose by 6.9% year-on-year in the first quarter of 2004, and probably by 6% in the second quarter, buoyed by rising farm trade. “We grossly underestimated the positive effects of accession,” Marek Belka, Poland's prime minister, told *The Economist* last week.

The farmers may have been the most obvious gainers, but they are not the only ones. With no more customs formalities to slow trade between Poland and other EU countries, Polish trucking companies have increased productivity by 20-50%, says Mr Belka. Foreign direct investment is strong, especially in service industries. Germany's Commerzbank said last week that it planned to move some back-office operations to Poland. Other banks may follow.

Mr Belka suggests optimistically that Poland is heading for “a very long, good period” of economic growth. The past few years were difficult, he concedes, but they forced Polish companies into a “second wave of deep restructuring” that made them more competitive, helped by a depreciating currency.

Up to a point. The Polish economy grew only slowly in 2000-03, but employment actually fell, especially among export-oriented firms, implying that there were some productivity gains. If it is now to get on to a path of sustained high growth, Poland must encourage job creation, by easing tough labour laws and cutting back its wasteful social-security schemes. Mr Belka is making some small improvements here, but his minority Socialist government is too weak to make big ones, even if it wanted to.

Mr Belka was appointed prime minister by President Aleksander Kwasniewski after a split in the ruling Socialists had forced out Leszek Miller in May. Despite that precarious start, and talk of yet another confidence vote next month, Mr Belka may yet hold on until May 2005, his target date for the next general election. Opinion polls, and the results of June's European elections, have persuaded Polish opposition leaders that an earlier vote could return a parliament too fragmented to support any stable government at all.

A few more months of Mr Belka could give time for the Socialists to regroup, and for economic recovery to erode the appeal of Samoobrona (Self defence), a Eurosceptic farmers' movement. These things

cannot alone guarantee Poland the strong, reformist government that it needs: for that, the centre-right would also have to unite. But a year or so at the top as a stabilising influence would still be an honourable record for Mr Belka, and it would surely make him a strong contender for the presidency when Mr Kwasniewski steps down next autumn.

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Kosovo's March riots

The audit of war

Sep 9th 2004
From The Economist print edition

An inquiry criticises international peacekeepers and the UN

THE rampaging of thousands of ethnic Albanians through Kosovo last March was the worst violence since NATO took charge of the province in 1999. One might have expected 18,000 NATO peacekeepers, plus 3,500 UN policemen, to be able to stop it. Yet three days of ethnic cleansing ensued, mostly around Mitrovica and Caglavica, leaving 19 Serbs and ethnic Albanians dead, 900 wounded, 4,000 non-Albanians displaced and hundreds of Serb churches and homes torched.

The peacekeepers and policemen had five years' experience of ethnic-Albanian and Serb violence in Kosovo, and were equipped with everything from helicopter gunships to riot-sticks. They faced mobs armed with stones, grenades, petrol bombs and Kalashnikovs. Even so, many peacekeepers, notably the French, Germans and Italians, proved woefully incompetent. (The American, Norwegian and Irish troops all excelled.) Human Rights Watch, an international pressure-group, concluded in July that NATO's mission, known as K-FOR, had failed to protect ethnic minorities, too often turning a blind eye to Serb homes being attacked and to UN police officers calling for help.

An internal report by the UN in New York on the performance of its Kosovo mission (UNMIK), seen by *The Economist*, details its failings in similar terms. It was based on interviews with senior UN and NATO staff in Kosovo, and written in May. The report says many feared that UNMIK and K-FOR would collapse if the riots had gone on for another day or two; the mission was already on the point of overstaying its welcome. UNMIK people were seen as aloof strangers in the society they governed. Since then, improvements have been made, but the problem remains.

In March UNMIK was led by Harri Holkeri, a tired Finn, who has now been replaced by a Dane, Soren Jessen-Petersen. K-FOR's top man is an experienced French general, Yves de Kermabon, who replaced the lacklustre German who lost control in March. The two new men have little time to lose. Kosovo is entering a period of maximum risk, said France's defence minister, Michèle Alliot-Marie, last week. Elections are due in October. Next year should see the start of “final-status” talks, which could lead to Kosovo's emergence from the limbo it has been in since the UN decreed in 1999 that it should remain part of Yugoslavia (now Serbia and Montenegro). Albanian extremists hint at more violence if they are denied independence.

NATO and the UN are on the defensive. A more recent report for the UN, prepared by the Norwegian ambassador to NATO, concludes that, if the final-status talks do begin, the UN should aim to end its mission and hand over to others (perhaps the European Union) by the end of next year. The story of international peacekeepers' successes and failures in Kosovo has often been the story of confronting or being manipulated by ethnic-Albanian extremists. Right now the ethnic-Albanian hot-heads seem to have the upper hand.

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German politics

Teutonic shift

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The Social Democrats' poor result in the Saarland disguises deeper changes

HEAVY losses for the ruling Social Democrats (SPD), big gains for the opposition Christian Democrats (CDU): state elections in Germany, of which there are half a dozen this year, have become predictable. In the Saarland on September 5th, the SPD saw its vote drop by 13.5 points to 30.8%, its worst result there since the war, while the CDU vote rose by two points to 47.5%.

Yet the sameness disguises a significant change. With each election it becomes clearer that Germany's political landscape has shifted. Gone are the days when there were two big parties, the CDU and SPD, with a smaller third party tipping the scale. (The Free Democrats—FDP—long played the balancing role, but they have now been overtaken by the Greens.) This set-up is changing in three ways.

First, turnout is dropping. It used to be above 70% in the old West Germany, where voting was seen as a civic duty. But only 55% turned out in the Saarland on Sunday, the smallest turnout in a regional election in western Germany since the war. This suggests that the voters are losing either their interest in politics or their faith in institutions. Over half now think “it doesn't matter” who gets their support.

The growing frustration with politics means, second, that the two big parties are shrinking. The SPD, which is in government and has pushed through some structural reforms, is suffering most. Many analysts now say that the SPD is no longer a people's party, given that its national support stands at around 25%. In the Saarland, it has lost almost half its votes in five years.

But the CDU is suffering too. Despite its increased share of the poll in the Saarland, it lost 44,000 votes, and surveys suggest that in the country at large the party may have peaked. In North Rhine-Westphalia, Germany's most populous state, where the regional election next May could decide Chancellor Gerhard Schröder's future, the conservatives are no longer guaranteed to win by a landslide. Disaffected former SPD voters are beginning to fret that a CDU government might pass even tougher reforms than Mr Schröder.

Third, smaller parties are gaining ground. In the Saarland, besides the FDP and the Greens, with 5.2% and 5.6% respectively, three other parties scored over 2%. The extreme-right National Democratic Party (NPD) got 4%, only just under the 5% threshold needed to enter parliament, fomenting fears that right-wing populist parties may be on the rise in Germany. In Saxony, which has an election on September 19th, the NPD is expected to pass the threshold.

The two parties that are most likely to shake up Germany's party system, however, did not make much of a showing in the Saarland. East Germany's former communists, now the Party of Democratic Socialism (PDS), won only 2.3%. But in the east the group has become the number-two political force, according to polls, thanks partly to weekly protests against labour-market reform. In Brandenburg, which will hold an election on September 19th, the PDS could even take top spot.

In the west, the disruptive role of the PDS could be taken by a new left-wing party, which trade-unionists and defectors from the SPD are trying to launch. If they succeed, the new party could win anything between 2% and 11%. How well it does may depend on one man: Oskar Lafontaine, the maverick former SPD chairman, ex-finance minister and one-time premier of the Saarland. He has threatened to defect to the new party unless Mr Schröder resigns and scraps his reforms.

Is Germany becoming an “unstable” democracy, as some worry, or even entering a period reminiscent of the Weimar republic? Such fears seem overblown. As Franz Walter, a political scientist at Göttingen University argues, the shifts in Germany's political landscape match the makeover of its welfare state.

Other European countries that have enacted reforms have also seen the emergence of populist parties of the right (the Netherlands) or left (Denmark, Finland), he notes.

Strangely, such a development may be Mr Schröder's only chance to hold on to his job after the federal elections in 2006. A new left-wing party could allow him to continue pushing through reforms while keeping disaffected SPD voters from voting CDU or simply skipping the polls. If the new party makes it into parliament, western left-wingers (as well as the PDS) are likely to tolerate another Schröder government rather than letting the conservatives rule. Just as the Germans have to adapt to a more flexible and market-driven economy, they may have to get used to a political system in which majorities shift around more frequently.

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German history

Taboo downfall

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A new Hitler movie reopens questions about the past

Disturbed and disturbing

PORTRAYING Hitler on screen has always been a taboo. If the *Führer* were shown at all, it was for seconds, from behind or far away. Making him the object of a film seemed impossible. No longer. Next week, Germans will have their first close-up movie encounter with Hitler when “The Downfall”, a portrayal of the last days in the bunker, opens. In months to come, they will get a closer look at other Nazi leaders. A documentary, “The Goebbels Experiment”, will profile Hitler's propagandist; other “perpetrator” movies are in the making.

Such films have produced a heated debate. Should one humanise Hitler, showing him crying, kissing Eva Braun or being nice to his dog and secretary? Does it help to know that Goebbels was a very unpopular boy? Might such films suggest that the Germans are starting to forgive Hitler and his gang?

There is no conspiracy among film-makers to shed a softer light on Germany's past. The wave of movies has more to do with a clutch of Nazi-related anniversaries, not least the 60th anniversary of the war's end next May. Such dates naturally mean greater interest in those who started it.

Yet the films, like recent books about Allied bombing or German refugees from east Prussia, do signal a shift in how Germans see the past. As long as memories were fresh and many involved were still alive, it was easier to concentrate on the Nazis' victims. Now, with the events receding and most eye-witnesses dead, the culture of commemoration has come. This means that both the sufferings of ordinary Germans and the stories of the perpetrators attract more interest.

Nor does trying to understand imply any desire to forgive. “The Downfall” and “The Goebbels Experiment” are strictly factual. “The Downfall” is based on the work of Joachim Fest, a historian, and the memoirs of Hitler's last secretary. The Goebbels film uses his own words, taken from his diaries. In both films, the result gives the impression of a disturbed personality. Goebbels shifts between depression and euphoria; he hates everybody, except anyone who shows affection for him. “The Downfall” reveals Hitler's loss of touch with reality. Its only weakness, indeed, is that it does not really explain what made him so attractive to Germans of the time.

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Charlemagne

Turkish tales

Sep 9th 2004
From The Economist print edition

Would Turkish membership of the EU really suit America?

WHEN George Bush stood on the banks of the Bosporus in June and called on the European Union to admit Turkey as a member, the European reaction was chilly. The EU must decide by December whether to open negotiations with Turkey, and it is edging towards saying yes. But the issue is sensitive in Europe, and pressure from the United States is not appreciated. Jacques Chirac, the French president, spoke for many of his colleagues when he said that the decision was none of America's business.

The Americans, however, think they have a direct interest in supporting Turkey's bid. David Phillips of the Council on Foreign Relations in New York sums up this view when he writes in the latest edition of *Foreign Affairs* that “EU membership would anchor Turkey in the West, fortify it as a firewall against terrorism and help make it a model of democracy for the Muslim world.” Such conventional wisdom often carries with it another not-so-hidden assumption: that, rather as with the ten central European countries that have just joined the EU, Turkey would bolster pro-American sentiment within the EU, counteracting those older countries, notably France, that have flirted with creating a counterweight to America.

But the idea that Turkey would stiffen pro-Americanism in Europe could well prove wrong. A poll for the German Marshall Fund of the United States, released on September 9th, probes attitudes to America in nine members of the EU (including Britain, France and Germany), as well as in Turkey. Asked to rate the warmth of their feelings towards the United States on a scale of 1-100, the nine existing members produced an average of 55. Turkey, by contrast, was a distinctly chilly 28, markedly more antagonistic than France's 51.

Hostility towards American foreign policy is also deeper in Turkey than in most of the existing European Union. Some 62% of Turks say they “disapprove very much” of the Bush administration's foreign policy, compared with 40% in the nine EU members and 35% of Americans. Turks are also more hostile to Israel than are other Europeans, even though their country is a close ally of Israel's. Asked whether America and the European Union have “enough common values to be able to co-operate on international problems”, 60% of the EU nine's citizens answer in the affirmative, but only 27% of Turks do.

Opinion polls are a mere snapshot, of course, and this one reflects the strong emotions aroused among Muslims everywhere over the past two years by events in Palestine and Iraq, and also Turkish fears that the overthrow of Saddam Hussein has encouraged Kurdish separatism. In time such fears may fade, and Turks could resume their role as faithful supporters of America. But it is at least possible that EU membership might push Turkey the other way instead.

The country's strategic alliance with the United States is the traditional policy of its secular, military elite, who have seen NATO membership as a crucial expression of Turkey's western orientation. But membership of the EU might provide an alternative expression of this policy, making NATO and the United States less important, even to Turkish generals. In any case, the democratising reforms required as a condition of EU membership are weakening the influence of the Turkish armed forces and increasing the importance of public opinion—a fact that was underlined when the Turkish parliament refused to allow America to invade Iraq from the country's soil in 2003.

American policymakers are doubtless aware of these risks. They are anyway more interested in the potential prizes that they believe would be offered by Turkish membership of the EU: the creation of that “firewall against terrorism” and “model of democracy for the Muslim world”. But even these benefits might not materialise. The Turks themselves are not convinced. When the German Marshall Fund asked if Turkish membership of the EU was desirable because it would “strengthen moderate Islam as a model in the Muslim world”, only 8% of Turks agreed. After all, one of the reasons why the Turks are keen on EU

membership is precisely to prove that they are different from the Arab world. Nor are Arab countries, many of which broke free from the Ottoman empire, altogether likely to regard Turkey as a model for their own development.

Foot-soldiers for a superpower?

Just as the hopes that the Americans place in Turkish membership of the EU may be exaggerated, so some European fears may be misplaced. For many people, these revolve round a fear of immigration, of admitting such a large country and of making Europe more Islamic—as Frits Bolkestein, the Dutch commissioner, said this week. But there is also a strategic consideration. Michel Rocard, a former prime minister of France who is a passionate advocate of Turkish membership, has argued that the Franco-German elite are reluctant to let Turkey into the EU because they fear it would imperil the “Carolingian dream” of creating a new European superpower, as powerful as the United States. The reasoning is that a European Union that contained Turkey would simply be too diverse ever to act coherently on the world stage.

Certainly, Turkey would not be the most malleable of partners. It is a country with a strong and well-defined sense of its own self-interest, which it would be unlikely to want to submerge in any post-modern mush cooked up in Brussels. On the other hand, Turkey would bring considerable strategic assets to the table. It has knowledge and experience of dealing with its neighbours in one of the most dangerous parts of the world. And, unlike all other new or prospective members of the EU, it has a large army. One flaw in the EU's dreams of global influence is its lack of military punch. Turkey's armed forces, over half a million strong, are much bigger than France's, Germany's or Britain's. French global ambitions, bolstered by Turkish troops: now that could be an interesting combination.

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Motor industry

The car in front is British

Sep 9th 2004
From The Economist print edition

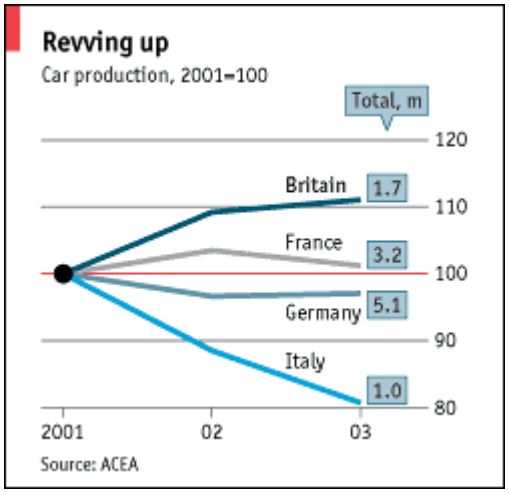
It isn't just the Mini: British car production is nearly back up to the record levels of its 1970s heyday

THE news from the car industry sounds straight out of the 1970s. At the Solihull plant of Ford's Land Rover subsidiary, some 8,000 jobs hang in the balance. The shopfloor culture at Solihull has been one of the last outposts of the confrontational style that ruined the old British car industry. A joint management-union team has drawn up proposals to give the plant one last chance to improve quality and efficiency. On September 8th, Ford bosses pronounced themselves satisfied with the revised plan, and Solihull seems to have earned a reprieve—for the moment.

Ford is fed up with Land Rover and Jaguar. Both should be money-spinners: Americans love classy British sports saloons and distinctive sport-utility off-roaders. But lousy quality has put Land Rover around the bottom of consumer reports.

Jaguar, which has swallowed over £3 billion ($5.3 billion) since Ford bought it 15 years ago, has improved quality and efficiency at its factories, but its smaller models are not selling well. By now, it was supposed to be selling 200,000 cars a year, but it manages only 120,000—not enough to sustain its three factories.

Land Rover's problems are at least confined to the factories, especially Solihull. At the Jaguar factory at Halewood, on Merseyside, trouble-makers there were eased out, and the rest of the workers signed up to Japanese-style working practices: now the place is a model of flexible working. If Solihull does not follow, it will close: already some Land Rover production is moving to Halewood.



But this 1970s-style gloom is the exception, rather than the rule, in Britain's car industry. If expansion keeps on at the lick of the past three years, within two years its output will be back to the record level of 1972, when British Leyland was the third-biggest car firm in the world and Dagenham and Luton were in full swing. This recovery is all the more surprising since it is happening while car production in other big European countries is declining (see chart), as more cars are made in central European countries such as Poland, Slovakia and the Czech Republic.

Why is this happening? Mostly because Britain now has the world's most international car industry.

Britain's home-grown industry fell apart 30 years ago as feeble management and bolshy workers conspired to bring the old British Leyland to its knees. The struggling remnants of the 1970s industry are Jaguar, Land Rover and MG Rover, which BMW tried to rescue in 1994, and whose sales last month were 37% below August last year. The successful bits are Peugeot's factory in Coventry and BMW's Oxford plant: it makes the new Mini which is taking every rich-world market by storm.

But the wider revival is led by the Japanese. They arrived in the 1980s, after Thatcherism undermined the unions. First came Nissan, whose Sunderland factory is still the most efficient in Europe. Toyota and Honda soon followed. Nissan came partly because it was bribed to; Honda just because it liked the pro-business culture. Toyota ran a beauty contest and Britain came top. It has since opened a factory in France, but is now expanding further in Derby. All use Britain as their principal production base for selling

across Europe.

As a result of the foreign invasion, Britain has a wider range of carmakers than anywhere else in Europe. Nine volume brands are now produced in Britain, plus Rolls-Royce, Bentley and niche producers such as Morgan and Lotus. Even Germany, with the mightiest motor industry in Europe, sports only six big brands.

Part of the reason why the British car industry is doing well is because the Japanese companies are good at what they do, and as they expand so does Britain's car industry. But inward investors also cite good industrial relations. All three Japanese manufacturers have exclusive single-union deals with Amicus, the engineering industry's trade union: its pragmatism has done much to help improve British manufacturing. That's one reason why every time Nissan bosses in Tokyo muse about putting a new model into a French factory of its sister company Renault, the team at Sunderland manages to squeeze more and more costs out of the plant.

Nor do the Japanese car companies seem to have suffered as much as some had predicted from being outside the euro zone. They have found ways to manage the difficulties. When the euro was weak, Honda switched British exports from Europe to America (and even Japan). Toyota gets suppliers to invoice in euros, and its supply chain stretches as far as South-East Asia, where costs are very low.

The Japanese companies have had their problems, and may have more coming their way. Honda, for instance, has only recently been able to rein in heavy losses, and both Nissan and Toyota have stacked up losses as they built up production and endured a then-strong pound.

But these losses may not be quite what they seem. An investigation by the *Financial Times* earlier this summer revealed that the taxman is poring over Honda's and Nissan's books to see if losses are a result of transfer-pricing dodges. These occur when companies deliberately make a loss in a high-tax country (such as Britain) so that the profit pops up in a low-tax country (such as Ireland, Belgium, the Netherlands or Luxembourg). Britain's tax-collectors are not the only grey-suited men looking into these Japanese losses. *The Economist* understands that the European Commission is also reviewing tax losses as part of a wider study of car manufacturing across the European Union. Perhaps the continentals are jealous of Britain's automotive renaissance.

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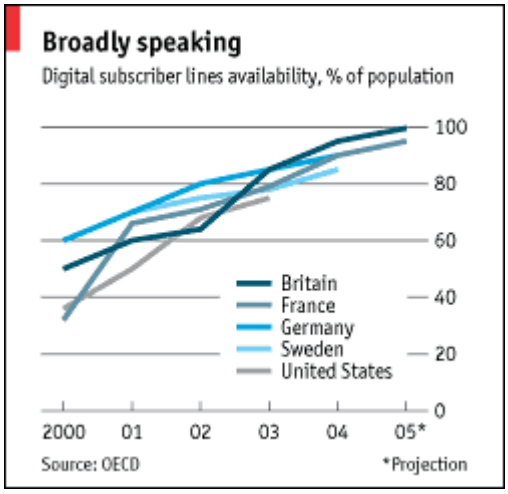
Broadband

Another surprising success

Sep 9th 2004
From The Economist print edition

Britain has come from behind to make high-speed internet access available



TWO years ago Britain was a high-speed laggard. Critics (including this newspaper) guffawed when a government report in 2001 promised that Britain would be a leader in broadband internet by 2005. But according to BT, the incumbent telecoms operator, 99.6% of British telephone lines will soon be capable of high-speed internet access. “In terms of broadband availability, other countries are looking to the UK to see what happened, how it happened, and why they're doing it,” says Sam Paltridge of the OECD. What did happen?

First, BT overcame a technical hurdle that previously limited broadband service to households within 6km (3.7 miles) of a telephone exchange. On September 6th, another batch of places became connectable. Second, credit is due to BT's boss, Ben Verwaayen, who arrived in 2002 with a plan to convert the network to a digital one and use it to sell other services, like television and telephony. As internet technology matures, using broadband for calls will be commonplace because it is less expensive. This week, Ofcom, Britain's communications regulator, began allocating a new phone number prefix, 056, for internet phone service and made it easier for people to keep their current numbers if they switch to broadband phones.

Third, potential competition from wireless broadband providers who could bypass BT's network pushed the operator to make broadband quickly available. However, competition—or lack of it—has become a problem for the company and has brought the unwelcome attention of the regulator. BT's retail division accounts for 42% of Britain's more than 3m broadband customers, yet its wholesale division is accused by competitors of dragging its feet in opening its network so rivals can resell broadband, and charging them high fees.

Ofcom recently added weight to the charge when it said BT Group's residential broadband pricing probably infringed European and British competition law, stemming from a complaint in 2002. It gave the operator a chance to respond before it makes a final ruling. And in August, Ofcom published proposed wholesale price ceilings on what BT can charge competitors for access to its network. The prices are lower than BT currently charges, even after its voluntary price cuts began in May. Ofcom's final decision on wholesale prices will be made before the end of the year, at which time the regulator also intends to issue a strategic review of the telecom sector as a whole, with an eye towards how to regulate BT in the long term.

BT's accomplishment in broadband availability ought to win favour with the regulator, despite the company's willingness to make life tough for upstarts. Yet despite its technical brilliance, Britain still comes below the average of the European class in terms of people actually using broadband. It also lags behind other OECD countries in speed of access and price, where Japan and South Korea lead the world. But that's just party pooping. “BT is currently taking more than 40,000 orders a week, so the market is booming,” gushes Mr Verwaayen in an interview, fittingly, by e-mail.

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New churches

Faith and fraud

Sep 9th 2004
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Trouble at the booming end of British Christianity

Get article background

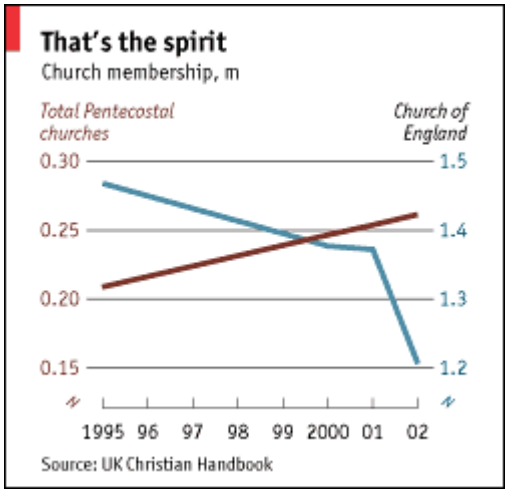
Reuters

One small “miracle”

DOUGLAS GOODMAN started the Victory Christian Centre in a meeting room in north London 15 years ago. By 2001, the church had an income of £3.5m ($5.9m). This week the Charity Commission published the results of an investigation into the Victory centre, which was wound up with debts of £200,000 two years ago. It found that “significant unauthorised salary payments and other benefits” were made to Mr Goodman and his wife. It also found that Mr Goodman, who is now in prison on a charge of indecent assault, wrote most of the cheques.

Few of Britain's new churches are as crooked as Mr Goodman's outfit. But the rapid growth of the Victory centre is part of a wider change taking place in British Christianity. While the Church of England's membership has been declining gently, some new churches have been successfully attracting recruits. The fastest growing are the Pentecostal ones (see chart), which emphasise extraordinary signs of God's grace. Within Pentecostalism, most of the new churches have been started by Africans. Black people make up the majority of their congregations, according to Christian Research.

Some of the wackier ones have grown big through preaching outlandish things. Gilbert Deya Ministries, which has branches in seven British cities, promises “miracle babies” to post-menopausal women. A BBC investigation found that several women have been flown to Kenya, where after a short pregnancy they gave birth to children whose DNA did not match their own. Kenyan police are now trying to extradite Mr Deya. But most churches have thrived by preaching a punchy message that appeals to the denominational equivalent of floating voters.



Black churchgoers used to be more anchored to their old churches. When immigrants came from the Caribbean in the 1950s and 1960s, many worshipped at churches set up by the preachers who came with them. Now that this generation of preachers is retiring or dying off, their congregations are looking for somewhere else to go. Joel Edwards of the Evangelical Alliance says that the congregations of African-led Pentecostal churches have increased largely thanks to footloose Jamaicans and other West Indians.

Successful marketing has much to do with it. “The Bible talks about going out and making disciples,” says Katei Kirby, a vicar in London who is originally from the Caribbean. “The Africans tend to take this as meaning: let's go out and do it.” The sales pitch can be eye-catching. Some churches focus on miraculous goings on, or on the material prosperity with which God will reward the faithful. The Kingsway International Christian Centre, a Pentecostal church in London that claims a congregation of 10,000, publishes a testimonial from someone who put 30p in the collection and the next day received a cheque for £30. This anonymous person then placed the £30 in the box, “after much prompting from the Holy Spirit”, and was promptly rewarded the following day with a cheque for £200.

Such miraculous transactions do not impress the Charity Commission, which regulates charities in England and Wales. Currently, preachers often draw their salaries from a trust of which they are also a trustee. Finances are sometimes made more opaque by international transfers to a church's foreign branches. The commission is working on new rules that would formalise the remuneration of preachers in independent churches and make church accounts easier to follow. That suits most of the churches. Those that can't live with the new rules can still refuse charitable status and set themselves up as businesses.

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Mental health

Psycho politics

Sep 9th 2004
From The Economist print edition

The government responds to worries about mad people who kill

MENTAL health is the Cinderella of the National Health Service. It generally registers on politicians' radar screen only when the public gets worked up about the dangers posed by mad people. New government proposals to reform mental health law are a response to such concerns. The draft bill will make it easier to detain people with a mental disorder who pose a threat to others.

Popular worries about this danger are stoked whenever someone with a history of mental illness commits a murder. Such tragedies are often blamed upon the switch to treating people in the community, which has gathered momentum in the past two decades.

When mentally ill people are discharged from hospital, they can fail to follow the treatments they need. The bill deals with this by allowing mandatory treatment within the community. It also closes a loophole in the current legislation under which individuals with a personality disorder cannot be detained unless there is a good chance that treatment will improve the condition. The new legislation allows them to be detained if psychiatrists think treatment is clinically appropriate even if it may not work.

The proposals are a step back from the broader powers of detention envisaged in an earlier version of the bill. However, Paul Farmer, chair of the Mental Health Alliance, is “deeply disappointed at the failure to address the fundamental flaws in the first draft”.

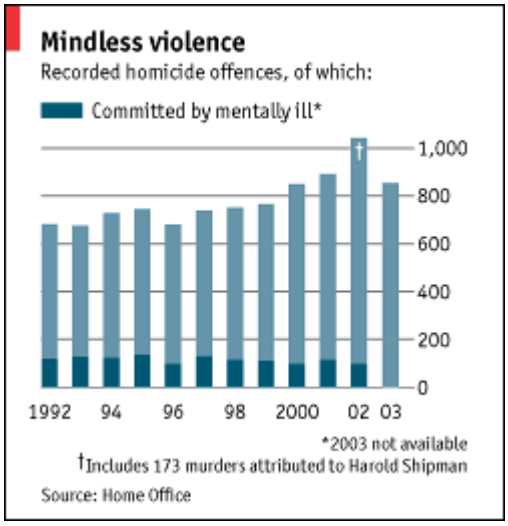
The bill's opponents believe that it will infringe the rights of mentally ill people. “It is discriminatory to say that people who retain their full decision-making capacity can be forced to have medical treatment,” argues Tony Zigmond, vice-president of the Royal College of Psychiatrists.

But according to Rosie Winterton, the health minister, the bill is designed to take account of the Human Rights Act. Patients will be able to choose for themselves who represents them; at present, this role is automatically assigned to their closest relation. All compulsory treatment beyond the first 28 days will have to be authorised by a new, independent tribunal.

Aside from their ethical objections, the bill's opponents say that the case for more compulsory treatment is weak. The mentally ill are responsible for a relatively small number of murders and other killings (see chart). An historical analysis of homicides found that the proportion committed by the mentally ill fell between the late 1950s and the mid 1990s.

Other research suggests that popular concern is misplaced. A recent study in the *British Medical Journal* found that killings by strangers are more often linked to alcohol and drug misuse than to severe mental illness. Clearly there is some trade-off between the number of mentally ill people who are detained and the homicide rate. But Mr Zigmond says that up to 5,000 people with a mental disorder would have to be detained to prevent one homicide.

Such arguments have not swayed the government. Ministers know that they are much more likely to be blamed for a murder committed by someone with a history of mental disorder than for a stabbing after a night of binge-drinking. If nothing else, the reforms will allow them to enter a plea of diminished political responsibility.



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Freedom of information

What do you know?

Sep 9th 2004
From The Economist print edition

Why nobody wants to talk about the Freedom of Information Act

THIRTY years after Labour first promised it, the Freedom of Information Act finally comes into force on January 1st. Most other democracies already have such laws, but obsession with secrecy, as Richard Crossman, a former Labour minister, once remarked, is “the British disease”. Under the original Official Secrets Act, it was illegal for a civil servant to make public any information that had not been authorised by a minister—which, as many pointed out, made the number of sugar-lumps officials put in their tea a state secret.

All this, says the government, is about to change. But not everyone is rejoicing. Many officials, and some ministers, view the approaching deadline with something approaching panic.

Under the act, 10,000 public bodies will be expected to provide information to anyone who asks for it. These include all government departments (save those dealing with intelligence), local authorities, the armed forces, the police, schools, the health service and regulatory bodies. No reason need be given for the request. Officials will have to tell the applicant whether they have the information and, if so, hand it over within 20 working days. The applicant can appeal, first to an independent freedom of information commissioner, and then to a special tribunal.

Some fret that this will discourage officials from keeping records of anything sensitive or embarrassing, and so make the task of government impossible. Many local authorities say they have neither the staff nor the resources to cope with the expected deluge of requests for information. Companies fear that confidential information released to regulators, or when tendering for public contracts, will now be available to their competitors.

Such worries are unfounded, human-rights campaigners say. They maintain that the big bang legislation promised by Labour in every manifesto since 1974 has turned into a damp squib. All the exceptions and restrictions contained in the present act, along with the ministerial veto which allows the government to block almost whatever it likes, make it close to useless, they say.

The act does contain many sweeping exemptions—23 in all, including information relating to national security, the formulation of government policy, commercial interests, international relations, court records, and personal data. Any information provided in confidence, covered by parliamentary or legal privilege, or likely to prejudice “the effective conduct of public affairs” is likewise exempt, as is information accessible by other means or about to be published.

But, unlike the United States' supposedly much tougher Freedom of Information Act, most of the exemptions in the British law are subject to a public interest test. Where disclosure is deemed to serve the public interest better than withholding the information, the exemption can be overridden. “Public interest” is not defined in the act. But guidance issued by Richard Thomas, the information commissioner, suggests that he, at least, will be tempted to err on the side of the public's right to know. “The presumption running through the act is that openness is, in itself, in the public interest,” he insists.

Public authorities have had nearly four years to gear themselves up for the act. Although some have moved slowly, others have made enormous progress—at least in comparison with the way things were. Most have now drawn up publication schemes for the “pro-active” release of data to the public. Official attitudes are already changing, and Mr Thomas attributes this to the influence of the act. Asked recently how many accidents involving nuclear weapons had occurred in Britain over the past 20 years, the Ministry of Defence initially took its default position of refusal, citing national security; but then changed its mind. The police, after spending hours answering individual requests about speed cameras, decided to

post the information on the internet. Everyone can now find out where the cameras are and how they work.

No one knows yet how many requests will be made under the act, but its potential is clearly enormous. Much will depend on how liberally its provisions are interpreted. Mr Thomas, who declares himself “a champion of public disclosure”, is determinedly upbeat. “It's going to be a very big job,” he concedes. “Things won't change overnight. But I believe it's going to produce a quiet revolution in relations between government and the governed. Indeed, it's already happening.” But he does not want to launch a big publicity campaign yet for fear of overwhelming the public authorities—and himself—when the act comes into force. “We don't want to encourage casual fishing just for the fun of it,” he says. “ We prefer to get off to a slow start. We expect some particularly challenging cases in the first six months.”

He can probably count on at least one important ally in government—Lord Falconer. The Lord Chancellor has promised to put an end to the culture of public secrecy. Ministers knew the release of some information might cause embarrassment, he told the Campaign for Freedom of Information earlier this year. “The shoe will pinch from time to time; and that is no bad thing. Some freedom of information releases will bring with them disobliging headlines for the government. But [this] will contribute [to] a more transparent government in which the people feel greater confidence.” Eventually: to start with, the resistance will be tough.

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Drinking

Pubs, clubs and drunken Brits

Sep 9th 2004
From The Economist print edition

Pubs are doing just fine—if you stretch the definition

J.D. WETHERSPOON, a discount pub operator which specialises in converting old offices and bank branches into watering holes, has a reputation for leading innovation and has seen profits grow consistently since it floated 12 years ago. So there was a worried reaction when it posted lower profits on September 3rd.

The problem is not that Britons aren't drinking. Total alcohol consumption has risen from 7.9 litres per person in 1990 to 9.1 litres in 2003. The problem is where they are drinking.

According to the British Beer and Pubs Association (BBPA), in 1971 less than 10% of all beer was consumed at home. Now almost 39% is. That's mostly because of the supermarkets. Already, in central London, a pint of a premium brand, such as Stella, costs less than £1 in a supermarket, while in a pub it could run up to £3. “Reducing the price of beer is a good way to get people into the stores, so price competition is set to intensify,” says Nigel Popham, a retail analyst at Teather & Greenwood.

Pub prices, meanwhile, have been increasing at or above the level of inflation since 1997, according to J.D. Wetherspoon. When pubs try to cut prices to compete, they risk not only falling profits, but also falling out with the local authorities: many councils are pushing for minimum prices to be set, to cut binge drinking.

While a beer on the sofa offers an alternative to the pub for the drinker who wants a quiet pint, there are also more attractions on offer these days for those who want a noisy night out. While the BBPA estimates that the number of pubs has fallen by 5,000 since 1988, to about 60,000 today, the total number of watering holes has hardly changed because other outlets, such as clubs, have spread. In response, some pubs are emulating clubs. The Campaign for Real Ale (CAMRA) says that while up to 20 traditional pubs are closing every month, about the same number are springing up around city high streets. But “many of our members would not regard them as pubs; they are just very noisy drinking establishments for young people with loud music,” says Iain Loe, CAMRA spokesman, with an audible shudder.

Other pubs are going in the opposite direction. Most of J.D. Wetherspoon's pubs now open at 10am to serve coffee and breakfast; 40% of its sales come from food and soft drinks. In smaller towns, where pubs have always been part-restaurants, they are now setting up grocery stores on their premises, says Mr Loe. The village of Goulceby in Lincolnshire, for instance, has said it would help The Three Horseshoes to convert its back storeroom into the shop that locals long for. A campaign called Pub is the Hub, set up in 2001, is trying to keep village pubs open “by finding additional uses for it.” This could include internet access, laundrettes and—in the case of The Weir Hotel in Bacup, Lancashire—church services.

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Foxhunting

Beastly

Sep 9th 2004
From The Economist print edition

Banning hunting is more about backbenchers than foxes

Reuters

History?

A TOTAL ban on foxhunting moved nearer this week when the government announced the return of the hunting bill, which has been chased from the House of Commons to the House of Lords and back several times already. This time the government will probably use the Parliament Act to ram it through the hostile upper house—something that has happened only three times since 1949 (when a new version of the act came in), and then only for important laws on the age of consent, war crimes and constitutional change. So why is the government using strong-arm tactics over something trivial?

The reason is that foxhunting is one of few issues that unite the party's antique wing with its modernisers. Even Tony Banks, one of the noisiest supporters of a ban, says the issue has become “totemic”. For those who lost the argument on public-service reform, a hunting ban is something they can win. For the rest, it provides a connection with an increasingly distant Labour past where scaring the landed gentry came above reassuring the middle classes.

This posturing is fairly painless in electoral terms, since most Labour voters live among pavements rather than hedgerows. Despite a weak performance in local elections in June, the party still controls 16 of the big metropolitan councils. The Tories have just four. Labour's distance from the countryside is reinforced by disdain for it. Some Labour modernisers regard the countryside as a place inhabited by nasty, backward and cruel people, whose only useful purpose is to produce interesting new cheeses they can buy at London's better farmers' markets.

The bill's supporters argue that, since Labour's two most recent election manifestos promised a ban, a failure to deliver would damage the government's credibility. This is disingenuous: the 1997 manifesto promised a free vote and the 2001 version said that Parliament would “reach a conclusion” on the issue. But by unearthing the bill now, Tony Blair hopes to repair relations with his backbenchers.

Mr Blair is expecting to call an election in the first half of next year. He therefore needs to quell the mutinous mood among Labour MPs after rebellions over university tuition fees and the Iraq war. Using the Parliament Act to force a ban past hostile Conservative peers in the Lords is one way of doing that before the party conference begins in Brighton at the end of the month.

A law banning hunting will make criminals of otherwise law-abiding people and will therefore be hard to police. The government knows this, which is why it announced on September 8th that the ban would not come into force for two years. Conveniently, that puts its implementation (and the civil disobedience by hunters that is likely to follow it) beyond the next election.

The delay will make the law even more absurd. But since the hunting bill has little to do with making good laws and everything to do with the Labour's internal squabbles, its MPs probably don't mind.

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Bagehot

Tony pushes his luck

Sep 9th 2004
From The Economist print edition

A newly assertive Tony Blair is taking a chance on his relationship with Gordon Brown

Get article background

NOTHING in Andrew Smith's plodding ministerial career foreshadowed the drama of his leaving it. His slightly premature departure from the Department of Work and Pensions on September 6th plunged Tony Blair's plans for a cabinet reshuffle this week into turmoil, while unleashing a particularly virulent bout of infighting between Blairites and Brownites.

Had Mr Smith gone quietly at the appointed time, nobody would have thought much about it. He was a failure, but not a notable one. Although decent and moderately able, he never managed to get any kind of grip on Britain's gathering pensions crisis. If ever there was a minister destined to be spending more time with his family, it seemed to be Mr Smith. But for one thing: Mr Smith is the creature of the chancellor, Gordon Brown, and Mr Brown sees the department over which Mr Smith nominally presided as a dependent province of the Treasury. Mr Brown thus interpreted rumours of Mr Smith's imminent sacking as a prime ministerial assault on his fiefdom and an example of Mr Blair's bad faith.

Worse still for Mr Brown, it emerged last weekend that the prime minister was intent on restoring Alan Milburn to the cabinet to take charge of the election campaign—a job Mr Brown did in the past two elections. Mr Brown detests Mr Milburn, who quit frontline politics last year because he really did want to spend more time with his family. When Mr Milburn was health secretary, their quarrel over how much independence to allow foundation hospitals was poisonous and personal. The chancellor thinks the ardently Blairite Mr Milburn is a flashy lightweight with ideas above his station: namely, that he, rather than Mr Brown, should one day succeed Mr Blair. By delaying Mr Blair's reshuffle plans, Mr Smith won the Brown camp extra time to campaign against Mr Milburn's return.

As is usually the case, Mr Brown's explosion of resentment has come after a period of brooding. Whether or not the chancellor, as some claim, really was credulous enough to hope that Mr Blair might make way for him this autumn, by the time the prime minister went off on holiday at the end of July, he knew that it was not to be. At the same time, the chancellor belatedly understood that the stream of five-year plans that ministers were producing at the behest of Number 10 added up to a concerted attempt by Mr Blair to reclaim control of parts of the domestic agenda he had previously ceded to Mr Brown.

In bringing Mr Milburn back (nominally, as Chancellor of the Duchy of Lancaster) to ginger up the manifesto and in replacing Mr Smith with the ultra-loyal Alan Johnson, Mr Blair is signalling a shift in the power relationship with Mr Brown. In doing so, he is prepared to gamble that Mr Brown will not risk a row that would split the party in the months before an election which both men want to win convincingly.

Mr Blair's determination to loosen the chancellor's hold over domestic policy is usually attributed to his desire to strengthen his legacy by giving his third term a more authentically New Labour edge. That certainly comes into it. But so too does straightforward frustration. And the government's pensions policy is a fine illustration of that.

Nearly everyone who knows anything about pensions (outside the Treasury) agrees the current policy is a mess. There is a rare consensus between Tories, Liberal Democrats, unions, pension funds, actuaries, think-tanks and quite a lot of ministers and Labour MPs. The government is accused of looking on complacently while one of the best pension systems in Europe has turned into one of the worst. The political consequences of this are not yet clear, but according to MORI, a polling company, 44% of those who are certain to vote in the next general election are 55 or older. Other estimates of grey voting power are even higher. Many of those at the younger end of the age group have looked on in trepidation at the

prospects for occupational pension schemes, which, according to UBS, an investment bank, are underfunded by £54 billion ($96 billion). Meanwhile, older pensioners, faced with the steady erosion in the value of their basic state pension, have been forced to apply for means-tested benefits or accept increasing poverty.

Permanent breakdown?

Thanks to Mr Brown, successive work and pensions secretaries have produced reams of reports, but little that has helped. Having started off in 1997 by raiding pension funds to the tune of £5 billion a year, Mr Brown has also failed to encourage savings. His ill-designed stakeholder pensions flopped, and help for members of collapsed company schemes has been grudging and inadequate. Although the chancellor deserves praise for trying to limit pensioner poverty, his means-tested credits are so complicated that few have taken them up. Nearly 2m of the poorest pensioners fail to claim their entitlement. It has also proved impossible to design a system of credits that doesn't discourage the lower paid from trying to provide for their retirement.

Adair Turner, a former employers' leader who is close to Mr Blair, was appointed by the government in 2002 to review the unhappy state of Britain's pensions. Mr Turner will deliver an interim report next month which is likely to make uncomfortable reading for Mr Brown and any other defenders of the status quo. True to form, the Treasury is already briefing against Mr Turner, claiming that he has exceeded his brief. Others are fervently hoping he has.

If indeed Mr Blair has reluctantly decided that pensions are too important to be left to his chancellor, what else might he want to take away from Mr Brown? And if he does encroach on other areas that Mr Brown regards as his own, could this extraordinarily successful but turbulent political partnership now be close to its end?

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Outsourcing to India

The latest in remote control

Sep 9th 2004 | BANGALORE AND NOIDA
From The Economist print edition

Reuters

After the call-centre, now the IT department is off to India

IN A shiny new building in the drab construction site that is Noida, a Delhi suburb, teams of young Indian engineers are, in a manner of speaking, managing the world. A number of America's best-known companies have entrusted the remote running of part of their global computing networks to HCL Comnet. This information-technology services firm is at the crest of what Gartner, a consultancy, has called “the next big wave” of Indian outsourcing deals, covering remote “infrastructure-management services”.

India's outsourcing boom started with software development and has expanded into a whole range of business services that can be handled a continent away, of which the country's hundreds of call-centres are just the most prominent examples. This takes that trend one stage further, and shifts offshore much of the administration and maintenance of a firm's IT systems. Gartner's Partha Iyengar divides remote IMS work into three categories: monitoring global network operations; providing helpdesk support and maintenance; and administering databases.

It is as yet a small part of India's IT business. According to NASSCOM, the Indian industry's lobby, the country's exports from the software, other IT services and business-process-outsourcing industries grew by more than 25% to $12 billion last year, of which infrastructure services accounted for just over $300m.

But the potential is huge. A report by Deutsche Bank puts the entire size of the global infrastructure-management market at $86 billion. Firms have been outsourcing infrastructure management for years. Arno Franz, of TPI, an outsourcing consultancy, describes it as an industry created in the 1970s and 1980s by EDS, an American giant that came out of efforts by General Motors to automate its car plants. Along with IBM, EDS still dominates the business. Often these firms would actually buy their clients' computer systems. Or they would have annual maintenance contracts. Either way, their customer had fixed their information-technology costs and were free to concentrate on their “core competencies”.

Vineet Nayar, HCL Comnet's chief executive, says this model was disrupted by three trends that converged in 2001. The recession in the information-technology industry left many customers locked into fixed-price contracts and unable to take advantage of falling costs. Second, information-technology departments, having invested fortunes over the previous few years, suddenly found their budgets frozen. And third, the growth of e-business accustomed firms to dealing with distant server “farms”.

India's chance

So there was a move away from the “total outsourcing” of computer systems, to the “discrete” outsourcing of parts of it, including those functions that can be handled remotely. That is where the opportunity lies for Indian firms, with the telecommunications links built for their software businesses and the outsourcing of other business processes. Gartner estimates that between 60% and 70% of the services surrounding a data centre can be executed at a distance. Mr Nayar sees the outsourcing of that work to India as a “megatrend”. As evidence, he cites his firm's client list, which includes some of the biggest names in American business, in fields ranging from investment banking to software to engines to sporting goods.

The big American firms also offer services out of India, and other local firms are competing for a share of the market, notably Wipro. G.K. Prasanna, who runs Wipro's “technology-infrastructure services” division, says he has been preaching for the past five years that this is the next big thing. A recent survey by the firm of 145 executives in a range of industries found that about a third had plans to manage some of their computerinfrastructure offshore. Like Mr Nayar, Mr Prasanna argues that the advantages for the client go beyond mere cost savings, offering higher levels of service—because problem solving is remote, so is identification. A glitch can be fixed before it is reported. This is a business, unlike call-centres, where time differences with America and Europe work in India's favour.

The back-office boom

India's share of the global IT services market, 2003*

	Value $bn	Market share %
Custom development and support	6.21	9.0
Business-process outsourcing	2.30	2.3
Infrastructure management services	0.35	0.4

Source: Deutsche Bank *Estimates

Cost, however, remains the big factor. One HCL Comnet client is Extreme Networks, a California-based switching-technology firm. Paul Hooper, one of its vice-presidents, estimates that outsourcing the management of part of his computer infrastructure has cut the “total cost of ownership” of it by an average of 40%. That is incentive enough to live with the risks and drawbacks that come with any type of outsourcing to India: the country's high rates of staff attrition and poor civil infrastructure being the most obvious.

Some analysts remain sceptical about whether Indian firms are big enough to make much of a dent in this market. The largest of them make annual revenues of not much more than $1 billion compared with about 20 times as much at, for example, EDS. TPI's Mr Franz says that the Indian firms cannot hope to match the huge computer-processing capacity of the American giants, and that any share they win of this market will be “marginal”.

The Indian firms counter that the remote business they are chasing is not infrastructure-intensive. They are confident India will gain market share. Gartner and Deutsche Bank predict a trebling in exports related to managing computer infrastructure to $1 billion in three years; NASSCOM goes for $1.5 billion-2 billion in five years. But NASSCOM has also forecast that India's total information technology and related exports will exceed $50 billion in 2008. So even the bullish-sounding projections about “infrastructure-management services” hardly suggest a revolution either in the global outsourcing market or in the structure of India's information-technology industry: not so much one big wave; more a rising tide.

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Baseball in Japan

One down, strikes to come

Sep 9th 2004 | TOKYO
From The Economist print edition

Globalisation shakes up Japanese baseball

MORE than a century after it took up baseball, Japan is combining the sport with another American import—efficiency-driven mergers. On September 8th, the owners of Japan's 12 professional baseball teams agreed to approve a merger between two of their members: the Kintetsu Buffaloes, which are owned by a struggling Osaka-based railway operator, and the Orix BlueWave. Two days earlier, anticipating the owners' approval of the deal, Japan's professional baseball players' union announced a limited strike in protest: they will boycott weekend games for the rest of the season.

The merger was necessary, but baseball in Japan is still in trouble. Japanese teams have similar problems to many of the country's non-manufacturing firms: they face increasing competition from overseas, but have been slow to adjust and are saddled with business ties to poor performers in other sectors, such as Daiei, a debt-laden department store.

Globalisation, for one, is taking its toll on the league. But instead of facing foreign companies on Japanese soil, like their counterparts in many other sectors, baseball teams face an overseas exodus of both skilled labour and high-income customers. Three years ago, Ichiro Suzuki turned Japanese heads by going to America's Seattle Mariners and becoming an instant star. Last year, Hideki Matsui, nicknamed Godzilla, left Japan's premier team, the Yomiuri Giants, to join the New York Yankees. This year's big move involved another Matsui, Kazuo, who left for New York's other baseball team, the Mets. One reason American teams can afford to pay these players so much more is because they are able to generate higher profits with such assets than their Japanese counterparts—a phenomenon that is hardly unique to baseball.

Even worse for Japan's baseball owners, however, has been the reaction of supporters. Thrilled by the overseas success of their stars, they are now tuning in to watch American games via satellite. Japanese sports pages and news broadcasts feature statistics and highlights from Japanese players in America, and web sites have sprung up to help supporters follow their heroes. Some fans even spend their holidays flying to the United States on packaged tours to see their favourites play. A weekend series in New York between the two Matsuis beats anything that the Kintetsu Buffaloes can dream up.

Unfortunately, it is even harder to raise productivity in baseball than in many other industries. You cannot put 18 players on the field instead of nine, or have pitchers throw two balls at the same time. So Japanese teams must find some way to boost revenues, by rearranging the two Japanese leagues to make the games more interesting and selling more things to supporters. Further mergers may be part of the solution.

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Samsung and Intel

Eric Kim inside

Sep 9th 2004 | TOKYO
From The Economist print edition

Samsung's brand-builder finds another challenge

IF INTEL'S employees believe that “only the paranoid survive”, it is because you never know when the next Samsung Electronics will come along and have you for lunch. In the past five years, Samsung has rebounded from the Asian financial crisis that devastated South Korea to emerge as a consumer-electronics giant with one of the world's most-admired brands. As its mobile phones, LCD televisions and other consumer devices have grown increasingly popular, the Samsung name has simultaneously managed to make young consumers feel cool and leave executives of its rivals—even at giants like Sony—quaking with fear.

Along the way, Samsung has also beaten Intel hands down in the battle to make flash memory, a small and fast storage medium for digital devices such as cameras and mobile phones. And this week it was revealed that Eric Kim, the global marketing manager who helped turn Samsung into a household name, will be joining Intel. What will he do for the maker of computer chips?

In his five years at Samsung Electronics, Mr Kim has unified the company's product development and advertising efforts into a cohesive branding strategy that gets the most out of the firm's impressive technology. When he started, product design was fragmented and country managers were pushing products through unco-ordinated sales channels. Overseas advertising was spread around dozens of agencies. In short order, Samsung tripled its marketing budget to around $3 billion a year and came up with a cohesive strategy for designing digital devices, many of which have shot to the top of their particular categories.

Samsung will soon announce the symbolic culmination of Mr Kim's marketing plans by choosing bids from the parents of some of the world's biggest agencies to oversee its global $600m annual advertising budget. Cheil Communications, a member of the Samsung group, will still take care of the home front. Mr Kim's drive to use a single agency follows a trail blazed by HSBC, a London-based bank. Earlier this year it chose Britain's WPP group to handle all of its advertising and marketing worldwide. With Samsung taking the same route, the owners of other big brands could adopt a similar strategy.

Chips with everything

Although Intel looks like a very different sort of company, it is attempting something similar to what Samsung has achieved. Samsung Electronics started out as a semiconductor firm, making simple but anonymous memory chips, and used continuous research and capital investment to emerge as an industry leader. But great silicon wafers do not make you a household name. What Samsung figured out was how to convert its strength in semiconductors into other markets. LCD televisions, for instance, are a hot consumer product in which Samsung leads. They are produced using processes similar to making chips. Under Mr Kim, Samsung became even bolder by branching out into mobile phones that use the GSM standard, even though South Korea uses the rival CDMA standard. That allowed Samsung to become one of the most popular mobile-handset brands in Europe.

While Intel, unlike Samsung, seems content to stick mainly to making chips, it has branded its microprocessors as the essential component in PCs, most notably with its “intel inside” logo. However, Intel hopes to emulate the South Korean firm's transformation in other ways. Intel's microprocessors dominate the PC market, but growth is slowing sharply. The American firm is now keen to expand its chip expertise into other products, such as for mobile-phone handsets and home electronics. But these are highly competitive and complex areas about which Intel knows little. Indeed, many analysts are unimpressed with Intel's strategy, and some reckon that it would do better by simply milking its

dominance in PC chips rather than risking a push into new areas. But if Intel is going to press ahead, then hiring a man who has been there and done that is a good first step.

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South Africa

Competition on the line

Sep 9th 2004 | JOHANNESBURG
From The Economist print edition

Telkom faces rivals to its fixed-line monopoly

THE International Monetary Fund's new boss was in Johannesburg this week. Rodrigo Rato thinks the South African economy is in pretty good shape; GDP growth should sneak above its modest average of about 3% a year. But what is stopping the country from doing even better? A lack of rivalry and a failure to liberalise, he suggests. “A strengthening of competition is needed,” Mr Rato reckons. He is right.

A report recently leaked from the Treasury has warned of an effective monopoly between South Africa's big four banks. On top of that are real monopolies in state-owned bits of the economy, such as energy, railways and ports. There are tentative plans to privatise and open up more industries, for example in electricity provision. But these could take a long time to implement. One of the quickest areas in which progress could be made is in telecoms, and that may finally be happening.

Telkom is one of South Africa's biggest firms. It is listed both in New York and Johannesburg after a partial privatisation early last year. The company enjoys huge advantages: a monopoly on land-line telephones and some other telecommunication structures, and ownership of half of Vodacom, a big mobile-phone provider.

Phoney rates

Yet just as mobile-phone use has boomed with rival private operators competing fiercely for customers, Telkom has failed to broaden the use of land lines. That is despite a mandate—the excuse given for prolonging the company's monopoly—to get more phones to the poor and rural areas. Telkom's call costs are also painfully high. A study of prices in 14 countries early this year, by NUS Consulting, said South Africa was the priciest: calls were over 60% more expensive than in Finland, for example. A Johannesburg business newspaper noted that South Africans pay as much as 13 times more than their British counterparts for similar services.

That serves nobody, except Telkom's share price. This week a research group, Efficient Research, suggested Telkom's high prices added one percentage point to South Africa's inflation in 2002, though a Telkom spokesman scoffs at this. High prices do put off investors. South Africa wants offshore and call-centre business of the sort India enjoys. The premier of Western Cape province will tour Britain this month to invite firms to relocate to Cape Town. He is carrying with him a study (not yet published) by Deloitte & Touche to point out the advantages. But the big problem? Telephone calls are too pricey.

Now that is set to change. After years of dithering, communications minister Ivy Matsepe-Casaburri said on September 2nd that Telkom's monopoly is all but over. Later this month, she promised, she will licence a consortium of local and foreign firms to act as a second national operator, to rival Telkom. Almost as important, from February next year all firms will be free to bypass Telkom's costly phone lines. The use of voice-carrying internet that allows cheap international phone calls will no longer be blocked; call-back systems (when calls are made to originate in countries where prices are cheaper) will be allowed; anyone with a private phone network can sell calls too.

All expect the price of calls to plummet. Telkom's share price already has. The day after Ms Matsepe-Casaburri's announcement Telkom lost nearly 3 billion rand ($460m) or 6% of its value. Some analysts think it could lose as much as a fifth of its 37 billion rand annual revenue to competition. The stock has since recovered a bit. But Telkom's loss should now be South Africa's gain, as other investment appears in telecommunications, call centres and the like. And the lesson from breaking up one monopoly should not be lost on the government. Time to look at the others too?

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Asia's auto industry

Motown in Thailand

Sep 9th 2004 | BANGKOK
From The Economist print edition

Why Bangkok is the place for pick-ups

THE world's second-largest producer of pick-up trucks after America—where such vehicles are often used as cars—is to many peoples' surprise, Thailand. For a country of just 64m where only one person in 12 owns a car, it is quite an achievement. But Toyota, Isuzu, Mitsubishi, Nissan, Mazda and Ford have all selected Thailand as a global production base for some pick-up models; General Motors also makes pick-ups in Thailand. Last year, local factories churned out almost 470,000 of them. This year, the figure might approach 600,000. Thai officials proudly see their country as the Detroit of South-East Asia. Now they are trying to parlay Thailand's strength in pick-ups into a broader auto industry.

Investment is pouring in. Last year, Ford unveiled plans to spend $500m to expand production. Nissan, having forked out $190m to increase its stake in its local joint venture, is now investing another $250m on new assembly lines. Toyota will spend $750m, both to increase capacity and to set up a research and development facility. Even Mitsubishi, which is struggling elsewhere, has found $525m to invest in its booming Thai operations.

Thailand has attracted this flood of investment thanks to a canny industrial policy, and an even cannier excise-tax regime. Malaysia is South-East Asia's biggest car market, but the government there still insists on protecting Proton, a home-grown carmaker, whereas Thailand has long welcomed foreign auto giants. What is more, for decades, the Thai government set the excise tax on pick-ups as low as 3%, compared with as much as 50% for ordinary passenger cars. That virtually guaranteed big sales of pick-ups for producers, in spite of the country's relatively small size.

Growing local production has provided a natural springboard for exports. Auto Alliance Thailand, a joint-venture between Ford and Mazda, sends pick-ups and sport-utility vehicles to over 130 countries, from Britain to Australia. Thailand will export some 300,000 vehicles this year, according to Automotive Resources Asia, a consultancy, and the government is hoping to raise that to 800,000 by 2011. It would make Thailand the world's ninth-largest auto-manufacturing base, up from its current rank of 15th.

But turning Thailand into an all-round force in carmaking will not be easy. The country does not have a big enough domestic market. So it is trying to create another niche, in pollution-saving electric or hybrid cars, through government support and tax incentives. But Thailand cannot afford to push that strategy too aggressively, for fear of cannibalising existing pick-up sales in the country.

Instead, Thai authorities are looking to exports. Thailand recently signed a free-trade agreement with Australia, and is now negotiating similar pacts with America and India. It is also a member of the Association of South-East Asian Nations (ASEAN), a grouping of ten countries in the region with a population of almost 500m. In principle, members of the ASEAN Free-Trade Area should charge no more than 5% duty on one another's exports. BMW, for one, is taking advantage of these preferential tariffs to export luxury cars to Indonesia from its Thai plant—the only one outside Germany to produce the firm's 3, 5 and 7 series simultaneously.

But the free-trade area is riddled with exemptions: big markets such as Malaysia and Vietnam maintain high tariffs on imported cars. Manufacturers continue to hedge their bets by locating factories in more than one ASEAN country. BMW, for example, also has facilities in Vietnam, the Philippines, Malaysia and Indonesia.

China poses an even bigger problem. In theory, carmakers are rushing to set up assembly lines there for the sake of the domestic market, not exports. But some analysts worry that the ever-increasing competition and over-capacity will prompt local manufacturers to look overseas for sales, creating tough

competition for Thailand. In the long run, auto executives say, a shortage of qualified workers might eventually put the brakes on Thailand's auto industry. China, of course, is awash with cheap engineers.

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Michelin

Flat out

Sep 9th 2004 | CLERMONT-FERRAND
From The Economist print edition

Will Michelin's hopes for a new tyre get punctured?

MICHELIN wants to transform the tyre industry, as it once did with the steel-belted radial tyre. This time, the world's biggest tyre maker is betting on a new technology to allow cars to be driven with a puncture. But the French firm's hopes could be deflated. So-called “run-flat” tyres are nothing new, and they have not proved very popular before for a variety of reasons, including their high cost.

Michelin's new PAX tyres will also be more expensive; about 25% more than ordinary tyres. But they can be fitted to a wider range of vehicles than earlier run-flat tyres, including to the heavier and popular sport-utility vehicles and pick-up trucks that dominate much of the American market. If these get a puncture, roadside wheel changes are hard work. Hence the first big test of the new PAX tyre will be its appearance in America on Honda's Odyssey minivan. Nissan will also fit some of its Quest minivans with PAX tyres.

Existing run-flat tyres use reinforced sidewalls to carry a car's weight. They let a driver travel for about 50 miles at up to 50 mph after a puncture. The PAX system, developed at the company's headquarters in Clermont-Ferrand, uses a rubber ring inside the tyre to attach it to the wheel. It will allow a vehicle to travel for 120 miles with a puncture.

Michelin first produced PAX tyres in 1998, but until now they have been used only on a small number of vehicles in Europe. The company is keen to use innovation to strengthen its position in a tough market characterised by over-capacity and low margins. America's Goodyear, Japan's Bridgestone, and Michelin together control about two-thirds of the $70-billion tyre market.

To help launch PAX into a wider world, Michelin has licensed its technology to some of its rivals. But its biggest drawback is that, unlike existing run-flat tyres, Michelin's PAX tyres will only work on vehicles that have been designed to use them. Nor can cars fitted with PAX tyres use conventional ones. On top of that, only authorised centres can repair PAX tyres. So plenty of obstacles stand in the way of any rapid adoption of PAX. Still, Michelin is used to that: even though it patented its radial tyre in 1946, it took nearly 30 years before it began to drive most textile cross-ply tyres off the road. Meanwhile, most drivers may still decide to rely on carrying a spare—and a good wrench.

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Benetton

The other colours

Sep 9th 2004 | PONZANO VENETO
From The Economist print edition

Diversifying from fashion into motorways and restaurants has paid off for the Benetton family

AP

Luciano keeps an eye on his empire

ALMOST 50 years ago Luciano Benetton came up with an idea that took the world of fashion by storm. His bright, casual sweaters would be dyed after they had been knitted so that stores could restock faster with the most popular colours. From artisanal origins in Ponzano Veneto, a small town about 30 kilometres (19 miles) north of Venice, the shops of the United Colors of Benetton spread across Europe and America, promoted by provocative and controversial advertising.

But times change and colours fade. Early this year, there were whispers that the Benetton family might be in financial trouble. The figures, though, show something rather different: Edizione Holding, the Benettons' holding company, owns investments with a market value, after deducting debts, of around €6 billion ($7.3 billion). Diversifying out of the business that the Benettons knew well, the fashion industry, has worked surprisingly well for one of Italy's best-known family concerns.

The Benettons' success in clothing relied on a supply chain of outsourced production tied together with a computerised logistics system, which was well ahead of its time. But by the late 1980s, imitators and competitors were catching up. Firms such as Sweden's H&M and Spain's Zara have recently given the Italian company a tough time in high streets and shopping malls.

Rumours about financial worries, however, seem to have been prompted by the Benettons' big spending on other businesses. Not content to stick to its knitting, the family has invested heavily over the past ten years in Italian privatisations, usually as part of a consortium.

In 1994, Edizione Holding was the leading partner in a consortium that acquired Autogrill, an Italian motorway-catering business. Then came Autostrade, the largest operator of toll motorways in Italy. Stakes in municipal energy utilities, the refurbishment of railway stations, Turin's airport and Telecom Italia followed. Over two-thirds of the Benettons' wealth—they are the third-richest family in Italy—is now in Autogrill and Autostrade (see table).

Idyllic Ponzano Veneto seems a long way from the centres of power. “We never needed to get close to politicians. I personally feel distant from politics. We like the idea of being in the countryside,” explains Mr Benetton. Yet this aversion to politicians

did not hamper the family's diversification efforts much.

Benetton on the road

Edizione Holding's main businesses

	2003 sales €bn	2003 profit before tax, €m	Edizione's share*, %	Edizione's share of market cap*, €bn
Autogrill	3.143	98	56.7	1.71
Autostrade	2.570	532	31.2	2.94
Benetton Group	1.859	165	67.1	1.09

Sources: Company reports; Thomson Datastream

*On August 31st 2004

Edizione Holding now has a 56.7% stake in Autogrill, which became a global concern in 1999 with the acquisition of Host Marriott Services, an American catering firm. It is, says Gianni Mion, Edizione Holding's managing director, “a nice business, well-managed and self-standing”. North America is now Autogrill's most important market; it accounted for over half of revenues in 2003. And the group's tills at airports were nearly as busy as those on the motorways.

The privatisation of Autostrade in 2000 presented another opportunity. Edizione Holding owns 60% of the consortium that obtained control of Autostrade by buying 30%. Last year, the consortium raised its stake in Autostrade to 62% with a public tender offer at €10 per share; in July it sold 10% of this at almost €16 per share, leaving it with virtually no debt.

Why have investors been so impressed? Autostrade's revenues are regulated, so tight management of costs is essential. Mr Mion says that Autostrade's spending on items such as road surfacing, guard rails and maintenance is now much lower per kilometre than was envisaged at the time of privatisation. Yet pleasing investors has proved easier than managing complaints about conflicts of interest. Autostrade grants concessions to restaurants and petrol stations on its motorways and, inevitably, Autogrill pitches for some of them. Although a firm of independent consultants handles the tendering process, there have been complaints that the process favours Autogrill. Magistrates are investigating these complaints, but Mr Mion appears unflustered, insisting that both firms have behaved correctly.

While Autogrill and Autostrade have been excellent investments, that cannot be said about all of the Benetton family's diversifications. Moves into sports equipment (Nordica ski-boots and Rollerblade skates) were a disappointment. These businesses were finally ditched in 2003. “I like to keep the mistakes in mind,” says Mr Mion. The group did not understand the sports equipment business, he admits. More significant than the losses was the distraction for management.

There is another mistake that Mr Mion should keep in mind. In 2001, the Benettons joined forces with Marco Tronchetti Provera, the boss of Pirelli, to take over Telecom Italia through Olimpia, a highly leveraged company. That has not paid off either: Edizione Holding's 16.8% stake in Olimpia is now worth only half its cost of €1.16 billion. “It is an investment that gives less satisfaction,” Mr Benetton remarks dryly. But at least the success of Autostrade and Autogrill means he can afford this blooper. Operating toll motorways and selling pizzas may be rather dull compared with the glitz of the fashion world, but at least they promise a steady cashflow for the next generation of Benettons.

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Face value

The everyday price cutter

Sep 9th 2004
From The Economist print edition

AP

Lee Scott considers a new way to run Wal-Mart

Get article background

TWO clocks in the spacious atrium where Lee Scott is addressing employees—or associates, as Wal-Mart prefers to call them—give the local times in Bentonville and Leeds. Mr Scott, the chief executive of the world's biggest retailer, has popped over from the company's home town in Arkansas to the Yorkshire city which serves as the headquarters of Asda, a British supermarket chain which Wal-Mart bought five years ago.

Despite stumbling with its expansion into some overseas markets, such as Germany, the $10 billion purchase of Asda in 1999 has exceeded Wal-Mart's expectations. Asda has overtaken Sainsbury's to become second only to Tesco among British supermarket chains. But there have been “broader implications”, says Mr Scott. These range from the adoption of Asda's George range of clothing as a global Wal-Mart brand, to a number of Asda executives rising through Wal-Mart's own corporate ranks. Bentonville also took a shine to Asda's stand-up meeting rooms: with no chairs to lounge in, meetings tend not to last very long.

One of Wal-Mart's great strengths has been its ability to absorb new ideas, wherever they have come from. The company is also opportunistic. Although Mr Scott's lips are sealed about any new deals in the pipeline, Wal-Mart has been looking at buying the retail side of Daiei, a Japanese group that is floundering in debt. This week the share price of Matalan, a British discount-retailer, rose on speculation of a Wal-Mart bid.

But it is back in America that Mr Scott faces his biggest challenges. There are lots more “supercentres” to plan and open—some 245 new stores this year; more next year. This is despite the fact that residents in some American cities, such as Inglewood in California, have fought hard to keep the chain out. Critics see Wal-Mart as an anti-union predator whose relentless price-cutting actually hurts the towns where it operates by driving out other traders and imposing such low wages that many employees have to rely on welfare to supplement their income. Wal-Mart also faces thousands of lawsuits in the American courts. The biggest of these is a class action seeking damages on behalf of 1.6m past and current female workers for alleged sexual discrimination in pay, promotion and training.

It is hardly surprising that Mr Scott disputes not only the lawsuit's claims, but the image of his company

as harsh or oppressive. Wal-Mart creates jobs, he argues, and is often the first employer for many people entering America's workforce. Moreover Wal-Mart's low prices put products within the reach of many lower-income people who could not otherwise afford them, at least not on a regular basis. Understanding your customer is the first principle of retailing, and Mr Scott knows whom his shoppers are. They are not to be found among the small group of people who, he says, exist in every country, and who distrust institutions and do not like big business. Where Wal-Mart has slipped up, he says, is in allowing such critics to use what he considers the few “exceptions” that have triggered complaints and lawsuits to allege that the company is itself nasty. Unfortunately, he adds, mistakes are bound to happen in a business which now has some 1.5m employees and annual sales last year of $256 billion.

Hiring and firing

Over the long term, Mr Scott believes, the legal tussles will make Wal-Mart a better company. But that is going to require a rather different style of management. Sam Walton, who founded the company in 1962, liked to encourage a folksy, entrepreneurial spirit in which anyone could work their way to the top: some 70% of Wal-Mart's senior managers were once hourly-paid workers. Mr Scott started with the company in 1979 and went on to run its logistics, which includes America's biggest trucking operations. “Sam always liked to take people back,” says Mr Scott. “One truck driver I fired five times and Sam hired him back four times.” But the harsher environment of today and the threat of lawsuits means such tolerance is no longer possible. More discipline will be required.

So Mr Scott says that he is trying to develop a system that still rewards people for taking risks, but ensures that they also operate within more clearly defined boundaries. Mistakes have to be dealt with quickly and appropriately, even if that means sacking people. If getting that balance right were not difficult enough, Mr Scott is also aiming to reduce the huge cost to Wal-Mart of replacing tens of thousands of workers each year.

Labour turnover rates are notoriously high in retail businesses. This reflects a lot of part-time and casual work. Wal-Mart has got its turnover rate down from a massive 60% a year to the industry norm of around 40%. But some of its American rivals, like Costco, have much lower rates. Wal-Mart may yet be able to learn a lot from Asda, which prides itself on having a turnover rate of only around 25%. Yet retaining the best workers—the sort who are less likely to make mistakes—could also mean Wal-Mart has to consider paying higher wages and providing more benefits which could, of course, raise costs.

With a question hanging over future labour costs, there can be no let-up in driving down costs through Wal-Mart's global procurement system. That, says Mr Scott, does not necessarily mean obtaining even more goods from low-cost countries: Wal-Mart already imports some $8 billion-worth of goods directly from China each year. “Most of what I see is elimination of the middle people,” he says. His favourite example involves a lesson that Wal-Mart gave Asda: the British retailer used to sell Christmas-tree lights at the equivalent of about $21, even though they came from the same factory that produced the ones Wal-Mart sold in America for less than $6. The Asda lights were passing through a string of middlemen. “I really object to that,” says Mr Scott. Watch out, middlemen.

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Global house prices

The sun also sets

Sep 9th 2004
From The Economist print edition

Alamy

Never before have real house prices been rising so fast in so many countries

SYDNEY HARBOUR is one of the most stunning sights in the world. Over the next year, it may also provide a reflection of global property markets. In recent years the prices of waterfront homes, like the whole Australian housing market, have soared. Now the national boom seems to be over. The only question for Australia—and for many other countries—is whether prices will fall.

Average house prices, as reported by the Australian Bureau of Statistics, fell by 1.2% in the second quarter; prices in Sydney dropped by 5.4%. Other sources suggest a steeper decline. The Commonwealth Bank of Australia reckons that house prices nationwide fell at an annual rate of 13% in the first half of 2004. Even so, by all measures Australian homes are still worth more than a year ago. But whereas Australia topped *The Economist*'s global house-price league last year, it has now dropped to about half-way down the list.

Since launching our global house-price indicators in 2002 we have focused on OECD countries, but in our latest quarterly update we have added China, Hong Kong, Singapore and South Africa. Home prices are rising at double-digit rates in 11 of our 20 countries. Hong Kong is top of the table, with an average gain of 28.7% in the year to the second quarter, a dramatic turnaround from a decline of 17% in the previous 12 months. The price of apartments on Hong Kong island has leapt by 40% in the past year. However, following the bursting of a mid-1990s bubble, average prices are still 55% lower than in 1997.

In second place is South Africa (with a gain of 25.5%), followed by New Zealand (22.1%). In both countries prices have been rising rapidly for several years. Property markets have also been climbing briskly in China. Speculation has been rampant in Shanghai, pushing prices up by 21% over the past year. Nationwide, however, city prices have risen by a more modest 10.4%.

Booming America, partying Europe

American house-price inflation quickened to 9.4% in the year to the second quarter, the highest since the 1970s. American prices have risen by less in recent years than those in Australia or Britain, but this is still by far the biggest boom in American history. Since the mid-1990s prices have increased more than twice as much in real terms (ie, after adjusting for inflation) as in the 1970s or the 1980s.

In the euro area, more countries have joined the party. Housing markets have long been at dizzy heights in Ireland, the Netherlands and Spain, but recently they have spurted in France, Italy and Belgium. French prices have jumped by 14.5% in the past year; by contrast, prices have fallen in Germany, which largely explains why consumer spending has been so much weaker there. In Asia, prices have also continued to fall in Japan and Singapore.

Many people now reckon that British house prices could fall in the next year. According to figures published by the Office of the Deputy Prime Minister, prices in Britain rose by 13.8% in the year to July, down from 25% at the end of 2002. Other surveys suggest that prices are already edging down, and estate agents have reported an abrupt drop in interest from buyers.

Calculations by *The Economist* show that home prices are now at record levels in relation to average incomes in America, Australia, Britain, France, Ireland, the Netherlands, New Zealand and Spain; on current trends, Italy will join this group by the end of the year. In other words, houses are more overvalued today than at previous peaks, from which prices typically fell sharply in real terms. Add in China and South Africa, and two-thirds (by economic weight) of the world that we track now has a potential housing bubble.

The Economist's house-price indices

% change:

	on a year earlier		1997-2004
	Q2 2004*	Q2 2003	
Hong Kong	28.7	-17.1	-55
South Africa	25.5	19.5	168
New Zealand	22.1	15.5	51
Spain	17.2	18.7	125
France	14.5	12.9	68
Britain	13.8	17.6	132
Ireland	11.1	13.8	181
Australia	10.9	18.1	110
Italy	10.8	10.6	62
China	10.4	2.1	na
Sweden	10.0	7.0	77
United States	9.4	6.5	57
Belgium	8.2	4.8	50
Canada	7.3	6.9	42
Denmark	5.0	2.9	44
Netherlands	3.9	0.5	74
Switzerland	2.1	2.7	11
Singapore	-0.8	-1.4	na
Germany	-1.7	-4.5	-3
Japan	-6.4	-4.8	-24

*Or latest

Sources: ABSA; Bulwien; ESRI; Japan Real Estate Institute; Nomisma; NVM; ODPM; OFHEO; Quotable Value; Stadim; Swiss National Bank; government offices

A year ago, most economic commentators in Britain and Australia denied that homes were seriously overvalued; today many more admit that markets do look frothy. America, though, is still in denial about house prices, judging by our favourite measure of whether homes are fairly valued, the ratio of house prices to rents. This is a sort of price-earnings ratio for housing. Just as the value of a company's shares should equal the discounted present value of its future profits, so the price of a house should reflect the future benefits of ownership, either as rental income or in the rent saved by an owner-occupier. America's ratio of house prices to rents is at a record high, 26% above its average over the 25 years to 2000 (see chart). To bring the market back to fair value, prices need to fall; alternatively, if rents continue to rise at their recent pace, prices will have to stagnate for as long as eight years.

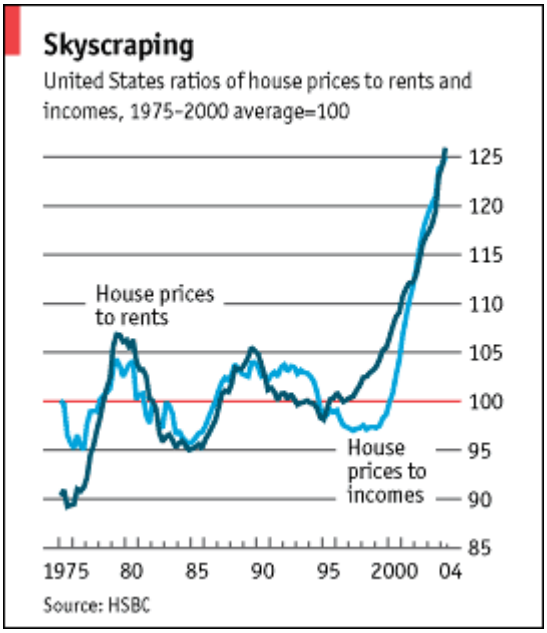
Most American commentators, however, insist that their housing market is different and does not suffer from British or Australian irrational exuberance. Alan Greenspan, chairman of the Federal Reserve, has argued that while America has regional housing hotspots, such as in California and New York, a national bubble is highly unlikely because prices are determined largely by local factors. However, a recent study of America's housing market by Ian Morris, an economist at HSBC, concludes that home prices look overvalued in 20 states that account for over half of America's population.

A second myth is that rising house prices reflect America's strong immigration and population growth. However, the supply of housing has also been rising fast. Vacancy rates are at their highest since at least 1965. If house prices were being driven up mainly by population growth, then rents should also be rising rapidly. In fact, they have lagged far behind.

A third argument is that, unlike in Britain and Australia, most American mortgages are at fixed interest rates, so the housing market is immune to a tightening of monetary policy. But the British and Australian markets have stalled not because homeowners cannot afford to pay their mortgages, but mainly because first-time buyers have been priced out of the market. The same may happen in America.

It is true that house prices in America are less overvalued than in Britain or Australia, so that any fall is likely to be more modest. Still, it could harm the economy. A recent study by Goldman Sachs finds that swings in house prices lead to much

bigger changes in consumer spending in America than in Britain. Furthermore, America already has much lower short-term interest rates and a bigger budget deficit than Australia or Britain, so if the housing market did take a tumble, policymakers would be less capable of fending off an economic downturn.



Even a mere levelling-off of house prices could trigger a sharp slowdown in consumer spending, as the recent experience of the Netherlands shows. The rate of Dutch house-price inflation slowed from 20% in 2000 to virtually zero by 2003. This appeared to be the perfect soft landing; prices did not fall. Yet consumer spending dropped by 1.2% last year, the biggest fall in any developed country in the past decade, pushing the economy into recession.

Although house prices did not fall, borrowing against the capital gains on homes to finance other spending, which had surged in step with rising prices, declined after 2001. This removed a powerful stimulus to spending. Since such borrowing has provided similar support to consumer spending in America, as well as in Britain and Australia, economists—and policymakers—would be wise to take heed.

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Macquarie Bank

Serial networker

Sep 9th 2004
From The Economist print edition

Australia's biggest investment bank keeps buying infrastructure

WHY is Macquarie Bank so keen on toll roads, pipelines and waterworks? Last week Macquarie, Australia's biggest investment bank, added to its A$14 billion ($9.7 billion) infrastructure empire, joining a consortium that bought the Welsh gas-distribution network from Britain's National Grid. Infrastructure accounts for more than a quarter of the assets managed by Macquarie and its funds, several of which are listed on the Australian stock exchange. Macquarie has stakes in everything from tunnels in South Korea to an expressway near San Diego and airports in Rome and Sydney.

Jim Craig, managing director of Macquarie's new, unlisted European Infrastructure Fund, argues that infrastructure should be attractive to pension funds and others as a long-term investment that is likely to maintain its real value. Norway's largest municipal pension fund and a few other similar investors from continental Europe have invested in Mr Craig's fund. Meanwhile, the Macquarie Infrastructure Group (MIG)—the biggest of the listed funds—has produced an average annual return of 18% since it began in 1996.

Not everything is rosy. Last month MIG announced a loss of A$252m in the year to June, having made a profit of A$495m the previous year. It had suffered a fall in the value of some assets. In Canada, where Macquarie has a 43% stake in a 108km (67-mile) highway outside Toronto, it has been battling the Ontario government over its right to raise tolls and how to penalise drivers who do not pay. (The high-tech system works out how far drivers have travelled and then sends them the bill, so no one has to stop.) In Britain, the Macquarie-owned M6 toll motorway, which opened last December after costing £900m ($1.6 billion) to build, is pulling in less revenue than expected. Nonetheless MIG insists that its toll roads are in good shape, with traffic up 7% and revenue rising twice as quickly. And its airport fund is doing well: its net profit in the first half of 2004 was three times more than a year before.

Hitting the road

If business is as good as Macquarie says, why are no other big financial institutions similarly enthusiastic? A plausible explanation is that Macquarie has experts in, say, airport management and finance that others do not. In roads, it had a head start because Australia privatised its toll roads more than a decade ago. Europe and America are only just beginning. And Macquarie has stayed close to its roots. Around 40% of its infrastructure assets are in Australia, and almost half of its investment worldwide is in toll roads.

Most investors in its funds are also Australian. Macquarie reckons that the country's pension funds allocate about 4% of their assets to infrastructure equity. For some of the larger funds, the proportion is twice as great. In Britain, by contrast, few pension funds have invested directly in such assets, despite pressure to diversify after recent heavy stockmarket losses. That is partly because there are few specialised infrastructure funds around, says Jane Welsh of Watson Wyatt, a consultancy.

Some pension funds are becoming interested: last week a group including the Ontario Teachers' Pension Plan, a Canadian fund managing assets of C$79 billion ($61 billion), bought National Grid's gas networks in Scotland and the south of England. Some British pension funds have begun looking at private finance initiatives, which take on public projects like hospitals and schools. Macquarie must hope that more European funds venture down the infrastructure road.

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Trade

Meating of minds

Sep 9th 2004 | TOKYO
From The Economist print edition

An end to Japan's ban on American beef may be in sight

AP

Safe for Japanese tables?

IT WAS a bad week for American cows, whose lives may soon get a little shorter. On September 6th, a panel of scientists advising the Japanese government ruled that America's trade negotiators have been correct, for the most part, about how risky it is to eat American beef. Their finding should soon offer a way out of a trade row that has raged since America reported a case of bovine spongiform encephalopathy (BSE) late last year.

In December, a cow in Washington state, which had entered America from Canada, was found to have BSE. Japan promptly extended its ban on Canadian beef, imposed when an infected cow was reported there the previous May, to imports from America. At first it said the ban would remain in place until the United States adopted Japanese testing standards. Unlike their counterparts in America and Europe, Japanese food inspectors test every single cow for BSE, including those less than 30 months old.

The Americans say that this approach is not “scientific”. They say that the brain-wasting disease takes time to develop, and that there is therefore no reason to test for BSE in cows under 30 months old. Outside Japan, they point out, no cow below that age has ever been found to be infected. The Americans also say that it is unnecessarily costly to test every animal above that age, because risks can be contained by statistical sampling and proper slaughtering.

Meanwhile, America's beef producers have been shut out of a market to which they exported $1 billion last year. Japanese importers have suffered too. Yoshinoya, a food chain famous for its *gyudon* (beef bowls), has had a hard time adapting its product to Australian meat. Its sales have slid: it expects to make its first loss in a quarter-century in the year to March.

This week's finding, by an ad hoc panel advising Japan's Food Safety Commission, will make a resolution of the dispute easier. Easier, but not certain. The panel concluded that American officials are right to claim that young cows are safe—but only those aged 20 months or less. Japan says that it has detected 11 cases of BSE since 2001, in cows as young as 21 months.

There is therefore still likely to be some haggling about the age below which untested beef can be sent to Japan. The Americans are also still trying to persuade the Japanese to accept some statistical sampling instead of insisting that every animal be examined. Another problem is that the two sides disagree about how to establish a cow's age. America does not track birthdays precisely, because a close estimate can be made from a cow's teeth.

Some Japanese consumer groups have been telling officials to be careful what they agree to. Still, a deal should be struck. Japan's prime minister, Junichiro Koizumi, will be in America this month and is likely to discuss the issue with George Bush. Trade negotiators are due to meet next month to sort out the details, and the ban could be lifted, if partially, by November. Although complete resolution could take a while yet, American cows may soon be on their way across the Pacific.

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Carbon-emissions trading

A green future

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The creation of a new exchange

MARKET forces and the environment are not always in harmony, but a new venture, announced on September 7th, may help lessen the discord. The European Climate Exchange (ECX), formed in an agreement between the Chicago Climate Exchange (CCX) and London's International Petroleum Exchange (IPE), will offer European companies a place to trade emissions credits for greenhouse gases.

Regulation has spurred the creation of the ECX. Next January, the European Union will put into effect new rules designed to curb carbon-dioxide emissions, which contribute to global warming. Companies in the EU's 25 member states will be allowed to emit a certain amount. If they go over, they can buy credits from companies that have stayed within their limits. The ECX plans to offer trading in emissions-credit futures by the end of this year, with cash products to follow soon afterwards.

In anticipation of this scheme, forward trading has already begun, though not on the ECX. Nine European brokerage houses already facilitate over-the-counter trades. Evolution Markets, one such firm, estimates that the volume traded has risen from 25,000 tonnes of carbon dioxide in January to 600,000 in July. In addition, companies trade directly with one another. To put this trade into context, Germany alone produces at least 800m tonnes a year. “It's only now that you're beginning to see real liquidity in the market,” says Stian Reklev of Point Carbon, a Norwegian market-analysis firm.

America, where the CCX opened for business last year, seems further behind. Despite the exchange's list of illustrious corporate members (including Ford, IBM and Dow Corning), trading is light for a country that emits perhaps a quarter of the world's greenhouse gases. There are lots of sellers but far fewer buyers, so a tonne of carbon dioxide goes for about $1, compared with €8.50 (around $10) in Europe.

The reason is that the American market has not had Europe's regulatory shove: the United States, unlike Europe, did not sign the Kyoto agreement on climate change and is not forcing companies to limit emissions. Still, the CCX seems to be betting that one day this will change. Nine north-eastern states, for example, are mulling a “cap-and-trade” programme similar to Europe's. The CCX also says that it will begin trading in allowances for sulphur-dioxide emissions, which cause acid rain.

For now, though, the CCX is pinning high hopes on its new European subsidiary. Volume on the ECX and elsewhere is likely to soar as the scheme begins. By 2007, Mr Reklev estimates, allowances worth up to €10 billion will be traded, compared with €65m this year. Bumps may lie ahead, though. For one thing, there will be plenty of novice participants: although energy companies have long experience of hedging on the IPE and other exchanges, other companies may have trouble adjusting to futures trading.

The ECX will also face competition. Brokers such as Evolution Markets are already in the market and intend to stand their ground. Other exchanges are also planning to enter the fray. The European Energy Exchange, an electricity specialist based in Leipzig, says it will start a cash market for carbon-dioxide emissions in a few months. In addition, Nord Pool, the Nordic power exchange, and Austria's energy exchange are making similar plans. Whether there is room for everyone remains to be seen.

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Indian banks

Adieu, paresse?

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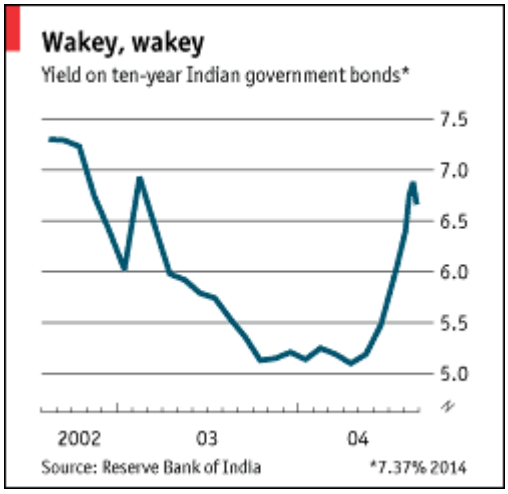
"Lazy" banking turns out to be riskier than it looks



TURNING a profit in Indian banking used to be as easy as falling off a log, if less energetic. For most of the past five years, all you had to do was invest in government bonds and book profits when their prices went up. A nice strategy, but it begs a question: what happens when they fall? This is not an idle question. Prices have, indeed, fallen this year. Indian bankers had an equally obvious answer: lobby the central bank, the Reserve Bank, for help. That may not be enough to spare them a big dent in their profits.

The Indian government's huge budget deficit creates an insatiable appetite for borrowing. With inflation subdued and the rupee less weak than usual, Indian interest rates and yields on government bonds fell for years; ie, prices rose. The market value of ten-year bonds climbed by about 40% between 1999 and 2003. Banks piled in. Last year, about two-thirds of the additional assets which India's commercial banks acquired were in the form of government securities.

Rakesh Mohan, a well-known economist now a deputy governor of the Reserve Bank, has termed this "lazy banking". Indian banks now hold government bonds equivalent to 46% of their deposits. Typically, bonds account for between 35% and 40% of banks' assets—far more than the statutory minimum of 25% and not much less than their lending.

Yet one of India's big economic problems is the difficulty small businesses and farmers have in securing credit. This is a particular concern of the new government, which has undertaken to double bank credit to rural areas in the next three years. Lazy banking is bad for the country.

This year, it has also turned out to be bad for the banks. They have been lending more but, with inflation building and interest rates poised to rise, they now face big losses on their bond holdings. Thanks to high oil prices, a late and erratic monsoon and a weakening rupee, the wholesale-price index, the most widely-used measure of inflation, is showing an annual increase of 8.2%, the highest for four years.

Inflationary fears dented bond prices. Ten-year government-bond yields moved from below 5.2% in January to 6.8% in mid-August. Since then, government measures to curb price rises have helped bring yields down. But banks' bond portfolios have been battered nonetheless. State Bank of India, the country's largest bank, indicated that, at the end of June, when the ten-year yield was around 5.8%, the depreciation on some of its securities approached 22 billion rupees ($480m), roughly 44% of its expected profit for the year.

Following frantic lobbying by the banks, the Reserve Bank has done a bit to help: on September 2nd it eased limits on the volume of investments banks can class as "held to maturity" (HTM), which do not have to be accounted for at market prices. Analysts think the short-term impact of this may be limited. Although converting bonds to HTM would protect banks against future depreciation, they would still suffer some big one-off losses.

The move has, however, had a curious effect on the bond market. Although interest rates are expected to rise, yields have been falling. Some observers suspect an informal agreement among banks to drive up bond prices to levels at which conversion to HTM would be more comfortable.

True or not, such a rumour says a lot about the low esteem in which Indian banking is held. It is dominated by 27 public-sector banks, which hold more than 80% of deposits and are the prime culprits of the crime of laziness. They may have to liven up. The new government is reminding them that the primary purpose of banks is not, after all, to trade its bonds.

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The global business environment

Measure first, then cut

Sep 9th 2004 | LUANDA
From The Economist print edition

A new study shows that bad regulations are a huge brake on global growth. But reforming or repealing them is easier than you think

Alamy

There's a business under there somewhere

"MONEY, money, money. What a lot of money you have," smirked the Angolan policeman, as he rifled through your correspondent's wallet, money-belt and pockets. He kept all the local currency he found, without issuing a receipt. This encounter took place last week, in broad daylight in the main airport in Luanda, Angola's capital. What was striking about it was not that Angolan officials rob people, but that the country's regulations practically ensure that they will.

Angola forbids the export of its banknotes, though they are worthless outside its borders. The *polícia fiscal* man a pair of frosted-glass cubicles at the airport (one for men, one for women), where travellers must queue to be frisked. The ordeal hardly inspires confidence in the government's much-touted anti-corruption drive.

Pointless regulations foster graft. The more irksome the rule, the greater the incentive to bribe officials not to enforce it. An excellent new study by the World Bank, "Doing Business in 2005", shows that red tape is one of the chief obstacles to growth in almost all poor countries.

In Haiti, for example, it takes 203 days to register a new company, which is 201 days longer than in Australia. In Sierra Leone, it costs 1,268% of average annual income per person, compared with nothing in Denmark. To register in Ethiopia, a would-be entrepreneur must deposit the equivalent of 18 years' average income in a bank account, which is then frozen. That such capital requirements are unnecessary has been amply proven in the 42 mostly rich countries that have abolished them.

Once incorporated, a firm may want to buy land upon which to build a factory. In Lagos, Nigeria's commercial capital, recording a property sale involves 21 procedures and takes 274 days. Official fees amount to 27% of the value of the transaction. In Norway, the task takes less than a day and costs only 2.5% of the price of the property. Land in Nigeria, unsurprisingly, tends to be traded informally. Its owners typically cannot prove, legally, that they own it, so it is useless as collateral.

Overall, businesses in poor countries shoulder three times the administrative costs and have to struggle through twice as many bureaucratic procedures as their counterparts in rich countries. A popular myth holds that this does not matter, because the rules in poor countries are rarely enforced. Not so. Because it is so hard to obey all the rules, businesses in poor countries tend to remain informal. That is, they remain outside the law and pay no taxes. They stay small to avoid detection. They cannot raise credit from the formal banking system in any case.

Governments often try to make their people richer by fiat, for example by ordering firms to pay their workers more. This rarely works as intended. Minimum-wage laws, if set too high, destroy jobs. Poor countries, which tend to have the most unrealistic labour standards, accordingly suffer the most unintended consequences.

Licensed to fail

In Burkina Faso, for instance, night and weekend work are forbidden, and the minimum wage is 82% of the average value-added per worker. To sack someone, an employer must first re-train him, place him in another job and pay him a lump sum equivalent to 18 months' wages. This is one reason why more than 90% of Burkinabes are still peasants. In such an arid and infertile country, this is not much fun.

Rules aimed at protecting vulnerable groups, such as women, often do the opposite. In Turkey, women who marry are allowed a year to decide whether to quit their jobs. If they go, their employers must give them a large severance package. So firms hire men: only 16% of Turkish women have formal jobs.

Poor countries may have lots of rules that “protect” workers, but they tend to lack credible systems for protecting property rights. Using the unhurried courts in Guatemala, for example, it takes on average 1,459 days to force a debtor to pay up, compared with 48 days in the Netherlands. In 12 countries, it would cost more to recoup a typical debt than was originally owed. Guess how easy it is to borrow money in such places. On a variety of measures, the report reckons that people and firms in poor countries enjoy only half as much protection of their property rights as those in rich countries.

Fortunately, regulations are not carved in stone. Simply by measuring the burden they impose, the World Bank has encouraged reform. “Doing Business in 2005” is the second of an annual series. Since the first report was published last year, 58 of the 145 countries in the sample have made doing business significantly easier.

Progress has been uneven, however. Europe improved the most. Seven of the top ten reformers were either new EU members, which had to shape up to join the club, or old ones, which had to shape up to compete with the new entrants. In poor countries, where deregulation is far more urgent, there was far less of it. Fewer than a third of poor countries adopted reforms, although the picture was distorted by the fact that Africa, with its many small countries, scored abysmally. Populous India did much better, as did Colombia.

Laggards sometimes argue that reforms would be difficult and costly to enact. But what could be simpler than scrapping a stupid rule? Simplifying procedures is harder, but not too hard. There are plenty of examples to learn from, and the World Bank estimates that the benefits of the reforms it advocates are 25 times the costs.

In the worst-regulated countries, the first steps are often obvious. Until last year, for example, registering a business in Ethiopia required, in addition to putting up lots of capital, publishing costly notices in two newspapers. The government solved this problem by simply abolishing the rule. The cost of registration plummeted from nearly five years' average income per person to nine months'. The number of new businesses registered shot up by half.

The World Bank estimates that if a country in the worst-regulated quartile were to join the best quartile, it would boost its annual growth rate by 2.2 percentage points. In other words, there is probably much more to gain from slashing red tape than from begging for more aid, especially since donors, unlike air travellers in Angola, are not exactly queuing up to open their wallets.

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Economics focus

Ends without means

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The United Nations has set benchmarks for progress in poor countries. Are these any use?

THIS week the United Nations published its annual assessment of progress toward its Millennium Development Goals (MDGs)—targets established in 2000 for advancing welfare in the developing countries. The record, as you might expect, is mixed. Some things are improving, others are not. How far the MDG initiative is making a difference, one way or another, is unclear. It remains questionable, in fact, whether the MDG exercise, with its unimpeachably good intentions and its proliferating bureaucratic overhead, has done any good at all, on balance.

The targets cover eight areas, calling in most cases for specified improvements by 2015 measured from 1990: reduce the incidence of extreme poverty and hunger by half; provide universal access to primary education; promote the equality of women; reduce infant mortality by two-thirds (with a separate target for extending immunisation against measles); reduce maternal mortality by three-quarters; halt and reverse the spread of HIV/AIDS and malaria; achieve “environmental sustainability” (reverse the loss of forests, improve access to clean water and sanitation); and form a “global partnership for development”.

The first six goals, at any rate, could hardly be questioned—nor the seventh, so far as drinking water and sanitation are concerned. One might ask, perhaps, why settle for reducing extreme poverty by only half? Why not aim for a cut of 80%, or 100% for that matter? The answer is that the UN did give some thought to what might feasibly be achieved, with increased effort by poor-country governments and donors, in the stated timescale. Fine. On the other hand, the weakness of the whole MDG concept is that it wills the ends without willing the means—something which the UN, perforce, has come to specialise in. A plan to spend an additional allocation of aid on specific interventions designed to reduce poverty, or combat AIDS, or whatever, could be judged for cost-effectiveness and ranked alongside alternative ways of expending resources on development. A statement of good intentions is unfortunately just that.

The UN seems especially proud of the progress made toward goal number eight, in which it has a vested interest—that of greater global co-operation on development. Certainly, discussion among governments about aid and development has been completely reordered by the MDG initiative. High-level conferences, working groups, declarations, strategies and programmes, all swearing allegiance to the MDG idea, are multiplying fantastically. In this sense, at least, the concept is a runaway success. However, what this is actually doing for the putative poor-country beneficiaries is harder to say. The UN observes that “many countries are in the process of retooling development programmes and strategies in line with the MDGs.” How odd. Were those governments hitherto unconcerned about poverty or AIDS? Then again, in the new assessment the UN is pleased to note that “at least 65 countries and five regions or sub-regions have issued reports geared to measuring progress on the MDGs.” Well, that's something.

Let them eat reports

For the most part, again as you would expect, progress in the substantive indicators of improvements in welfare is highly correlated with economic growth. East and South-East Asia have met or are on track to meet nearly all of the MDGs by 2015. (East Asia has seen movement in the wrong direction for just one target: the proportion without clean drinking water in towns, partly owing to rural-urban migration. South-East Asia has seen a worsening in just one area too: forests.) At the other extreme, the moribund economies of sub-Saharan Africa, taken together, have met or are on track to meet not a single target—with the exception, presumably, of the global-partnership targets for retooling programmes and issuing reports. No progress at all, or less than no progress, on poverty and hunger; on secondary-school enrolment for girls; on infant mortality or immunisation against measles; on maternal mortality; on

malaria; on forests, drinking water and sanitation.

The overriding importance of economic growth suggests that aid, in itself, is no cure-all. Yet there is no question that in sub-Saharan Africa and in other very poor places, certain kinds of aid—notably those aimed at specific health interventions—are well worth undertaking. Has the MDG process at least succeeded in directing more aid to the right uses?

Not really. Aid flows increased by $2.3 billion between 2002 and 2003, but American spending on reconstruction in Iraq is included in that total, and accounts for $2 billion. Contributions to multilateral concessional funds fell by $1.2 billion. Total official aid, at $68.5 billion, stood at 0.25% of the donor countries' aggregated national incomes, up from 0.23% in 2002—but the UN's agreed aid goal is 0.7% of national income.

Additional spending on treating and preventing AIDS is recognised by the MDG initiative as a key aim, and widely acknowledged (for instance by the Copenhagen Consensus project, described in this space earlier this year) as among the most cost-effective ways to spend money in poor countries. What is the record there? Spending to halt the spread of AIDS and other diseases (notably malaria and tuberculosis) was $4.7 billion last year, a substantial rise from $1.7 billion in 2002. But this is still far less than ought to be spent: the UN reckons that $12 billion will be needed next year and $20 billion in 2006.

Meanwhile, nearly 5m people became newly infected with AIDS in 2003, more than in any previous year. In Eastern Europe and South Asia the disease is spreading more rapidly than before. In sub-Saharan Africa the pandemic continues “unabated”—partly for want of resources. As a result, MDGs or no, the region's millennium development outlook is a worsening economic catastrophe.

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Clinical trials

The sounds of silence

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Allstar

Negative clinical-trial results are underreported. But this may soon change

SOMETIMES, no news is news. In clinical trials, where new medical treatments are tried out on human subjects, no news—an inconclusive result, indicating that the treatment is useless, or a negative one, indicating that it is harmful—can be as scientifically important as a positive result. Unfortunately, such a result is much less likely to be reported.

That is particularly true for trials sponsored by the pharmaceutical industry which, according to the American Medical Association (AMA), accounted for over 70% of the funding for such trials in America in 2002, the most recent year for which figures are available. The lack of reporting of null or negative findings is pernicious because it skews the results of so-called “meta-analyses”, which compile data from previous studies of a treatment. If only positive results are reported, then a meta-analysis risks being too laudatory.

The medical profession has been aware of this problem for a long time. However, pharmaceutical companies have a vested interest in keeping negative results quiet, so change has been slow in coming. But the proper balance between commercial confidentiality and public disclosure in the case of drugs, where ignorance can cost lives through misprescription, is different from that for, say, computer chips. The widespread government funding of basic drug research also gives the public a moral claim on the results. And a confluence of forces in the past few weeks may well succeed in pushing drug companies towards greater openness.

The times they are a changin'

The first of these forces was a legal settlement last month between GlaxoSmithKline (GSK), a British pharmaceutical company, and the state of New York. A lawsuit filed in June by Eliot Spitzer, New York's attorney-general, alleged that GSK had deliberately suppressed negative results from four clinical trials of Paxil, an anti-depressant. In the settlement, GSK agreed to post online summaries of all of the clinical trials it completed after December 27th 2000 (the date that Glaxo Wellcome merged with SmithKline Beecham).

The second force is that on September 9th the International Committee of Medical Journal Editors, a group consisting of the editors of the *Journal of the American Medical Association* (*JAMA*), the *New England Journal of Medicine* (NEJM), the *Lancet* and 11 other top-flight medical publications, put the screws on those who conduct clinical trials. They announced that from the middle of 2005 their journals would no longer publish the results of trials that had not been registered in advance in an independent database open to the scrutiny of all. The journal editors do not advocate a particular database, but they do point out that clinicaltrials.gov, which is run by America's National Institutes of Health, is the only one which satisfies their criteria at the moment.

At first glance, the posturing of a few scientific journals might look puny in the face of the might of the drug companies. But the editors' proposal actually has teeth, because even hard-nosed corporations value the legitimacy that publication in an important peer-reviewed journal has on their results. And although only 14 journals have signed up to the initiative so far, other journals carrying results of clinical trials typically take their lead from the journals that are spearheading it.

Defenders of the pharmaceutical industry claim that forcing the complete reporting of results might reduce the incentive to develop new drugs by revealing a firm's hand too early in the development process. But Jeffrey Drazen, the editor of the NEJM, argues that the rewards of success are so big that requiring such reporting will not stop companies from proposing trials they think have a chance of success. What it might reduce, he says, is the number of “seeding trials”. These are trials of drugs that have already been approved for one use, and are then tested for secondary treatments which have little hope of success. Firms use these trials as marketing tools, to put drugs into the hands of doctors in the hope that those doctors will prescribe them more often. The mere existence of seeding trials indicates that the balance between confidentiality and disclosure is skewed.

The editors' initiative will help, but it will serve only to flush out now-hidden trials so that questions can be asked about what happened to them if no public report of their results ensues. It will not force those questions to be answered. The third factor, a political one, may deal with that.

Legislation is in the works in both houses of America's Congress to reform the reporting of trials. In particular, Chris Dodd, Tim Johnson and Edward Kennedy, three Democratic senators, are expected to propose, within the next week or two, a law that would increase compliance with existing requirements to post trial data to clinicaltrials.gov. It would probably adopt a proposal made by the AMA that registration in a central database be a requirement for the approval of human trials, as well as introducing new requirements to include trial results in the database.

The industry disputes the need for this. Caroline Loew, a spokesman for Pharmaceutical Research and Manufacturers of America (PhRMA), a trade group, claims that the industry has a “very good history of compliance”. This is stretching the truth. As Catherine De Angelis, the editor of JAMA, points out, a group of big drug companies agreed in 1997 that they would create a centralised database. But, because there was no enforcement mechanism, they conveniently forgot about it. Furthermore, in a letter written to PhRMA in June, Henry Waxman, a Democratic congressman from California, pointed out that the industry was not even complying with existing legal requirements to post certain trials to clinicaltrials.gov. Alan Goldhammer, another spokesman for PhRMA, claims that Mr Waxman was relying on preliminary data.

Band on the run

In his letter, Mr Waxman also complains that despite PhRMA's budget of over $72.7m for lobbying the federal government, when the House of Representatives' Government Reform Committee held hearings on the issue of clinical trials and requested that an industry spokesman testify, none deigned to show up. So there are reasons to suspect that the proposal made by PhRMA on September 7th, for a new, voluntary database, is less good than it sounds. Critics point out that it will only contain summaries of the results of trials after they are completed, rather than reporting ongoing trials. It will also be restricted to trials for drugs that are being marketed in America.

Dr Goldhammer replies that this is because PhRMA has made a deliberate decision to focus on practising American physicians, who need to know only the final results for drugs sold in America, rather than on the needs of researchers. But this is short-sighted. Researchers could make good use of the more complete set of data.

Dr Goldhammer says that what his group is proposing is “delinking a registry from a results database”. That sort of obfuscation seems opposed to transparency. But transparent reporting of trials looks as if it

is on its way, regardless.

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Radiation

Testing times

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There is now evidence that radiation damage can be passed down the generations

DURING the 1950s, one of the least inviting holiday destinations on the planet would have been Semipalatinsk, in Kazakhstan. It is a mere 150km (about 100 miles) from the Soviet Union's main atomic-bomb testing site and it was subjected to the fallout from 118 tests over 13 years. From this and other grim and inadvertent experiments, it is clear that nuclear radiation is a powerful cause of mutations in human DNA in the ordinary cells (those that are not concerned with reproduction) of the body. Such mutations can, in turn, cause cancers. But evidence supporting another oft-voiced fear—that radiation-induced mutations might affect human reproductive (or "germ-line") cells—is weak and surprisingly controversial.

That is now changing. On September 7th, Yuri Dubrova, a geneticist at the University of Leicester, in England, presented a study of radiation-induced mutation in human germ cells (sperm and eggs) to a scientific meeting called "Children with Leukaemia", which was held in London. He and his colleagues have been looking for mutations in the germ cells of those who live in areas contaminated by fallout from the nuclear accident at Chernobyl in 1986.

They have done this by examining parts of the human genome that contain repetitive sequences of DNA, and comparing corresponding regions in exposed and unexposed people from rural areas of Ukraine and Belarus. These repetitive sequences are easy to quantify, and mutation rates in different places can thus be calculated. The upshot is that men (though not women) exposed to fallout had a 1.6-fold increase in the mutation rate of DNA in their germ cells.

Dr Dubrova has also worked with the unfortunate denizens of Semey, as Semipalatinsk was renamed after the break-up of the Soviet Union. Overground atomic testing was halted in 1965, so he was able to find families in Semey with varying levels of exposure to radiation. He can now show that as the radiation dose decreased, so did the mutation-rate in the germ cells. This kind of "dose-response curve" is the sort of thing that turns toxicologists weak at the knees, because it shows a quantitative relationship between the putative cause and the effect.

Until Dr Dubrova's work, studies on human germ-line radiation-damage had drawn a blank. The children of people who lived in Hiroshima and Nagasaki when they were bombed, those of Chernobyl clean-up workers, and those born to cancer patients who had been treated with radiotherapy had all failed to show a higher incidence of inherited mutation. And work that did show an increase in such malformations (in children in the Chernobyl region) was inconclusive because there was a similar increase in malformations in uncontaminated areas.

Of course, the crucial question is not whether germ cells are susceptible to mutation, but whether such mutations are passed from parent to offspring, and whether they can then cause disease. Dr Dubrova has shown such transgenerational instability in mice, and has demonstrated that it can be transmitted at least as far as the third generation.

In normal circumstances, the mice who inherit this genetic instability have no greater risk of developing cancer than normal mice. However, if they are "challenged" with a carcinogenic substance they have a much higher incidence of cancer. There is, says Dr Dubrova, not a shred of evidence that the same is true in humans. Nevertheless, he will go so far as to speculate that transgenerational instability might be a contributing factor to the unexplained cluster of childhood leukaemia cases around the Sellafield nuclear plant in England, which was the site of an accident in 1957.

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Sleep research

Stuff that dreams are made on

Sep 9th 2004
From The Economist print edition

There seems to be a dream-specific region in the brain

AS SCIENTIFIC research goes, the study of dreaming may seem questionable. Tomes of psychobabble have been written on the meaning of dreams, beginning with the works of Freud and Jung, the founders of psychoanalysis. But whether you find yourself flying over a city or giving a speech naked, studies of the images themselves do not seem to answer the “how” and “why” questions of human dreaming.

The question of “where”, though, now seems to have an answer. Dreams are either generated in, or transmitted through, a part of the brain called the right inferior lingual gyrus. At least, that seems to be the inference of a piece of research just published in the *Annals of Neurology* by Matthias Bischof and Claudio Bassetti, of the University Hospital of Bern.

Their paper concerns a 73-year-old woman who dreamed prolifically until she suffered a stroke. After that, her dreams stopped. There are precedents for this, but in previous reported cases the loss of dreaming was accompanied by other effects, such as loss of the ability to recognise faces and places. In this case, the patient reported no other symptoms.

First, Dr Bischof and Dr Bassetti examined their patient using a brain-scanning technique called magnetic-resonance imaging. This showed the extent of the damage caused by the stroke, and revealed that the right inferior lingual gyrus, which is in the visual cortex, was the worst affected part. They then examined their patient's sleep patterns.

Orthodox theory says that dreaming is linked to a phenomenon called rapid eye movement (REM) sleep. That orthodoxy has been challenged of late, by studies that show people dreaming during other phases of sleep, as well. The work carried out by Dr Bischof and Dr Bassetti challenges the orthodoxy from the other direction, for they found that apart from her lack of dreams, their patient had a normal pattern of REM sleep. It also challenges the idea that dreaming is somehow necessary for mental well-being—in particular, the theory that it is involved in the process of memory formation.

That was already under scrutiny, too, because some dream researchers believe that 1-2% of healthy people sleep without dreaming. Locating the seat of dreaming would make studying these healthy non-dreamers—if that is what they are—much easier to do.

The two researchers are not suggesting that the right inferior lingual gyrus is necessarily the *fons et origo* of dreaming, but they are suggesting that it is a critical—and specific—component of the process. Or, as the careful language of the paper puts it, that a lesion in this part of the brain is the “minimal sufficient damage” that can cause loss of dreams.

Eventually, the patient regained some of her ability to dream, but even after a year she still reported that her dreams were rare, and lacked intensity. Oddly, though, on the third night after her stroke she had one last, vivid dream. It involved colourfully dressed little men on a large piece of cotton and a lot of anxiety. Chew on that one, Dr Freud.

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Space science

An unflying saucer

Sep 9th 2004
From The Economist print edition

AP

Genesis crashed. But can it be brought back to life?

Get article background

THE *Genesis* capsule pictured above was supposed to have been returned to Earth by Hollywood stunt pilots. But the capsule, launched by America's space agency, NASA, suffered a distinctly unheroic fate when it plummeted to the ground in the Utah desert on September 8th. Although the proposal to catch it in mid-air was perfectly feasible, a fault with the probe's parachute system meant that the waiting helicopter pilots stood no chance of making the recovery.

On Wednesday morning, the *Genesis* mother ship flew past the Earth and released the capsule, which contains samples of the solar wind, on a course to enter the atmosphere above Oregon. Once beyond the searing heat of re-entry, it was supposed to have deployed a parachute and descended to a pick-up site south-west of Salt Lake City.

Although the capsule entered the atmosphere on time, its drogue chute failed to open. The drogue is a small, initial parachute that is used to stabilise and decelerate a re-entering spacecraft before the main parachute is deployed. The probe, which weighs 190kg (420lb), appears to have hit the ground at extremely high speed.

Genesis, which cost $264m, was launched in 2001, and has spent the intervening years basking in the sunshine of outer space. The research promised to offer clues about the origin of the solar system. During its time in space the craft deployed delicate wafers of silicon, sapphire, gold and diamond to capture its prey—electrically charged atoms that had streamed off the surface of the sun. Their combined weight was no more than that of a few grains of salt. Different collectors were designed for different flavours of solar wind.

The entire sample-capturing structure has been indelicately mashed into the Earth with enough force to dig the capsule into the ground. A soft landing had been designed specifically to prevent the wafers from shattering and mixing up the samples.

As the first American sample-return mission since *Apollo 17*, *Genesis* was also a trailblazer for a second attempt of this nature. NASA's *Stardust* spacecraft is trying to capture particles of dust from a comet, and is supposed to land this material by parachute early in 2006.

As *The Economist* went to press, it was apparent only that the capsule had sustained severe damage. It will not be known for some time whether anything can be salvaged, but NASA's scientists have already said they will be picking through the rubble as soon as they are able. They will do so carefully. There are concerns that the explosive for the failed parachute may still be ready to fire.

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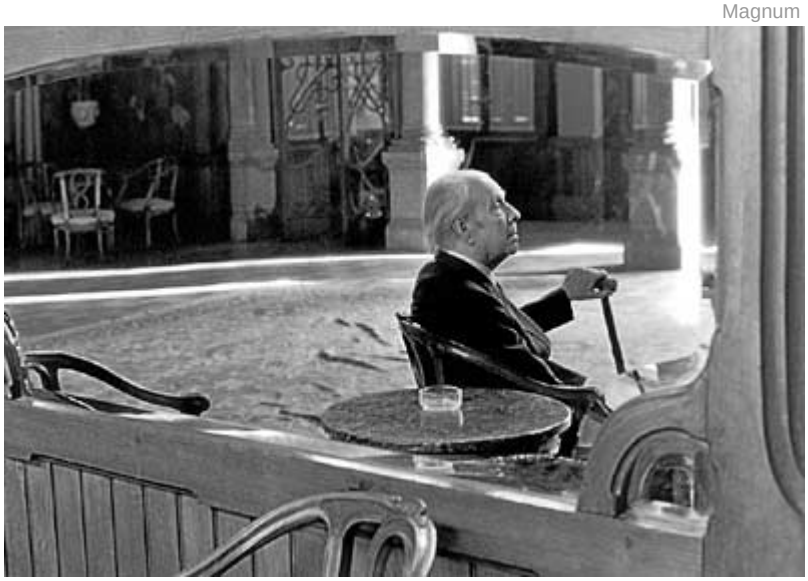
About sponsorship

Jorge Luis Borges

Sightless seer of Buenos Aires

Sep 9th 2004
From The Economist print edition

Magnum

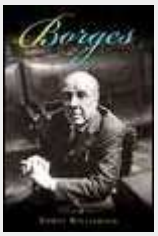


A new biography looks at the inner man, for lack of an outer one

IT IS a challenge to write a biography of a man who did little more than read and think, whose myopia turned to blindness in middle age, who was an auto-didact whose only real job was as a librarian, and who lived with his mother and her housekeeper in a poky Buenos Aires flat until she died at 99, when he was 75. Shortly before that, he wrote gloomily: “My father's library has been the chief event in my life...the truth is that I have never emerged from it.”

Edwin Williamson's response is to focus on what the writing of Jorge Luis Borges tells us about the inner man, and vice versa. This approach has merits, for Borges's work is indeed more interesting than his life, which ended in 1986—and he himself believed that “all literature is autobiographical in the last instance”.

Borges: A Life
By Edwin Williamson



Viking; 384 pages; $34.95 and £25

Buy it at
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Amazon.co.uk

Borges was one of the most singular and influential writers of the 20th century. Yet his limitations were obvious, and to nobody more than himself. He wrote nothing longer than short stories and essays. He was, self-consciously, a literary writer and found plot hard. His poetic imagination—in full flood in his 20s, when he was the leading light of the Argentine literary avant-garde, and again in old age—suffered from prolonged droughts. Some of his work is recondite to the point of obscurity. One book of stories sold only 37 copies when first published.

Still, Borges had extraordinary and original gifts. He was a voracious reader. His enthusiasms ranged from Norse legends and Anglo-Saxon (which he began learning when close to 60) to metaphysics, philosophy and the detective story. Like Kafka, he had an acute sense of arbitrariness and absurdity in life, and of the fragility of personal identity. To that he added a delight in language and its possibilities. His love of riddles and paradox provided the sense of magic to which other Latin American writers would append realism, giving birth to a new genre.

Mr Williamson, a professor of Spanish literature at Oxford, has done his homework, reading just about

every scrap that Borges wrote and interviewing many who knew him well. He has some new theories about his subject. He reveals that many of Borges's poems and stories are elaborately coded explorations of the writer's torment over his repeated failures in love, especially his rejection in his 20s by Norah Lange, a flamboyant cousin. In addition, Borges was dogged by feelings of worthlessness brought on by a domineering mother—who worshipped her Argentine ancestors, heroes of the independence movement—and by an ineffectual father, a failure as both a rebel and a writer. This is convincing, although the deconstructions are a little laboured and repetitive.

The author also does a fine job of placing Borges in the context of an Argentina that slid from first world to third during his subject's lifetime. When Borges was a teenager, his father was able to take his family, including Jorge Luis's English grandmother, to Geneva and Spain for several years on his pension from modest jobs as a court administrator and English teacher. Borges's high hopes of Argentina becoming a middle-class democracy were dashed by Perón's populist rule of 1946-55.

The writer's passionate anti-Peronism led him towards the contradictory position of embracing, briefly, the murderous military dictatorship of 1976-83. It was, he said, a “necessary evil”. Despite this political naivety, Borges had a nobler vision than many of his narrow-minded critics. An Anglophile, he insisted that he was part of a universal culture and refused to be pigeon-holed as an Argentine writer, though he was that, too, of course. As a young man, he idealised the Buenos Aires underworld—its knife fighters provided him with a recurring theme. Yet in a conscious snub to Argentine nationalism, he chose to die in Geneva.

Mr Williamson's book has a happy ending. In his mid-50s, Borges began to enjoy an international reputation that brought him ever-growing fame and fortune. Many contemporary writers count him as an inspiration. Umberto Eco went so far as to turn a whole novel (“The Name of the Rose”) into an extended homage to Borges. Mr Williamson also reckons that his subject found love at last, with María Kodama, a former student many years his junior—just how many Mr Williamson omits to tell us. Borges married her, with a deal of controversy, shortly before his death. Ms Kodama collaborated with the author, and the reader senses he is getting her version of events.

Mr Williamson's work begs some questions. He is remarkably incurious about some aspects of his subject's life. He tells us nothing, for example, of Borges's estrangement from Adolfo Bioy Casares, a fellow-writer and lifelong friend. Though Mr Williamson has succeeded in his quest to show “a fuller, more human, more richly faceted Borges than the anemic bibliophile of legend”, an elusive quality remains about his subject. There may be no more satisfactory way of writing a life of Jorge Luis Borges than to focus on the work. If so, Borges himself would have taken mischievous delight in the notion that he had written his own biography from beyond the grave.

Borges: A Life.
By Edwin Williamson.
Viking; 384 pages; $34.95 and £25

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New fiction

Then in walked the author

Sep 9th 2004
From The Economist print edition

THE true memoirs of Lady Hyegyong, crown princess of Korea, who lived in the 18th century, capture the imagination of Babs Halliwell, the fictional heroine of the latter part of this book. Similarly, they have captured the imagination of Margaret Drabble, novelist, and she has concocted a hybrid of a book around them, terming it “a transcultural tragi-comedy”. It is not an historical novel.

Lady Hyegyong, born in 1735, was married at the age of ten to Prince Sado, heir to the kingdom of Korea, who was much the same age. For several years the two children played innocently together at court until, at about the age of 15, they consummated their marriage. Prince Sado, who was hated by the king, his father, soon showed signs of madness.

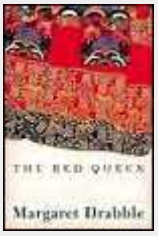
The manifestations of this were a bizarre phobia about clothes, and increasingly deranged and violent behaviour. His bride's memoirs document the brutal politics and the strange goings-on at court and they culminate with the murder of Prince Sado by the king, who entombs his son in a rice chest; the suffocation takes eight days. The crown princess's dramatic and evocative story is told, as it were, by her modern ghost, one conversant with current intellectual expression. It makes up the first part of the book.

The second part is devoted to a trip to an academic conference in Seoul made by Babs Halliwell, a large, attractive, British academic. Her fascination with the crown princess, whose memoirs she reads on the flight to South Korea, leads to visits to the derelict palaces where the old court resided, and by chance to a short affair with the star of the conference, a distinguished and charismatic Dutch professor. The madness of her ex-husband, the fraud of her ex-father-in-law, and the death from a genetic disorder of her only child: all serve to draw her closer to this strange story. She is haunted, in particular, by the lingering death of Prince Sado in the rice chest. And then, oddly, at the end of the book, Ms Drabble brings herself into the story.

The interpolation of historical events, the colouring-in of details, and the novelist's conjecture of what was in the minds of the people involved was always going to be hard to pull off. Though the crown princess's memoirs are recounted with grace and intelligence, and though the old professor's seduction of the strapping young lecturer is enjoyable, it is difficult for the reader ever to lose sight of the contrivance.

The Red Queen.
By Margaret Drabble.
To be published in America by Harcourt Books in October
Viking; 368 pages; £16.99

The Red Queen
By Margaret Drabble



Viking; 368 pages; £16.99. To be published in America by Harcourt Books in October

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About sponsorship

The Toronto film festival

The start of something big?

Sep 9th 2004 | TORONTO
From The Economist print edition

Canada's answer to Cannes

THE Cannes film festival wears its commercial heart on a very fashionable sleeve. Plunging necklines and paparazzi crowd the Croisette, as cigar-chomping executives sign deals in hotel lobbies. The only film festival to come anywhere near it for business clout is the Toronto International Film Festival, which opened on September 9th in Canada's commercial capital. But its style is very different.

The Canadian festival's stars are the general public who come to watch the films—many of them showing for the first time—and who are, in turn, watched by movie-industry moguls eager to sense the reaction to their creations before they reach a wider audience. Glamour is out and sensible shoes are in as 2,700 buyers, agents, producers and distributors rush from one screening to another of the 300-or-so films shown over the ten days of the festival.

Toronto spurns the official competitions favoured by Cannes and other high-profile festivals, such as Berlin and Venice, where cinematic legends adjudicate and pontificate upon the works of rivals. Rather, a slew of prizes is topped by the People's Choice Award, voted for by the general public. Deals are done discreetly, behind hotel-room doors and in darkened screening rooms.

In the 1990s, the demand for festival tickets grew to such a peak that two parallel screening schedules had to be set up—one for press and industry, and another separate one for the public. Audiences complained about the ringing phones and other interruptions that came with the business folk who crowded the cinemas. Yet segregation made it impossible for buyers to gauge the audiences' response. So buyers have since been allowed some access to the public screenings.

Toronto's tastes are sufficiently close to those of the rest of North America for its audiences to give producers a good idea of how viewers south of the border will react to their films. The Canadians also have a knack for picking out unanticipated hits, such as the feature-length documentary “Roger & Me” (1989), in which Michael Moore first came to public notice with his dogged questioning of Roger Smith, then chief executive of General Motors, about the effects of the company's lay-offs on the town of Flint in Michigan. Quentin Tarantino's directorial debut “Reservoir Dogs” (1992) also showed in Toronto. So did “Whale Rider” (2002), whose young leading actress was nominated for an Oscar. The film is notable less for its sealife than for its Maori war dances.

This year 100-odd premieres of full-length feature films are showing at the festival, including “Being Julia”, which stars Annette Bening and Jeremy Irons. The film is based on a novel by Somerset Maugham and is filmed in Budapest and beside the River Thames at Maidenhead. It is a languorous tale of summer love among pre-war England's country-house set—ingredients found in the past to have great commercial appeal.

The premiere of Kevin Spacey's first new film for some time is also showing. “Beyond the Sea”, which the Oscar-winning actor also directs, is the story of Bobby Darin, a versatile singer of the late 1950s and early 1960s, who died young. It has long been a pet project of Mr Spacey's, who is currently the creative director at London's Old Vic theatre. Mr Spacey, no mean crooner himself, plays Darin and sings all the songs—including the title tune “Beyond the Sea”. As Darin himself once sang, “This Could Be the Start of Something Big”.

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Britain's National Health Service

Body-snatchers

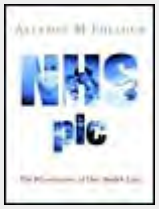
Sep 9th 2004
From The Economist print edition

BRITAIN'S “free” National Health Service is awash with taxpayers' money. It is enjoying the longest sustained boost to its resources since its founding half-a-century ago. Since the end of the 1990s, its cash budget has been rising by 10% a year. The bonanza continues until 2007, when the NHS will spend almost £110 billion ($195 billion)—8% of GDP and bigger than economies the size of Portugal today.

The money is paying for more doctors and nurses, more drugs and operations. Britain's notorious waiting-lists for hospital treatment are falling, at long last. Yet there are worries about whether the Labour government's cash cascade, which has destabilised the public finances, is delivering value for money.

Nevertheless, Allyson Pollock, professor of health policy at University College London, pays scant attention to the infusion of taxpayers' money. Instead, she unmasks a political plot to privatise the NHS.

NHS plc: The Privatisation of Our Health Care
By Allyson M. Pollock



Verso; 271 pages; $30 and £15.99

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Amazon.com
Amazon.co.uk

Everywhere Ms Pollock looks at the NHS, she finds sinister business interests at work. Worse, they often have an American connection. The vultures are circling over the carcass of the good old NHS, where health care was properly planned and money did not count. The ultimate privatisation is coming soon.

John Grisham this isn't. His conspiracy theories are more plausible than the fiction of “NHS plc”. Many of the sinister businessmen turn out to be private-sector executives brought in to overhaul the NHS's lamentable management. Britain's private health insurers don't get the plot. They fear they may not have a future if the government succeeds in modernising the health service.

Consider this: the NHS employed 1.4m people in 2003, up from 1.2m when Labour took office in 1997. The health service is the third biggest employer in the world, surpassed only by China's Red Army and the Indian railways. The government is indeed putting more NHS work out to the private sector, but only to a limited degree. Next year, private firms will carry out about 5% of publicly-funded elective operations; NHS hospitals will do the rest, together with emergency work.

Even if the private sector did much more for the health service, why would this matter? There is no good reason why the NHS should be both publicly financed and publicly provided. State-run hospitals could do with a dose of competition.

The Labour government's main reform is the more modest policy of creating a market within the NHS. It wants public money to follow the patient, so that public hospitals are paid by their results. The strategy, as far is it goes, is a sensible one. Yet the internal market will fail if this most meddling of governments is unable to curb its instinct to interfere. Assessing the reforms' chances of success calls for an open-minded critique rather than a blinkered diatribe.

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How inventors invent

Cripes! Eureka!

Sep 9th 2004
From The Economist print edition

WHEN Charles Goodyear stumbled upon the process that keeps rubber from melting in the summer—so paving the way for the tyre—it wasn't because he knew what he was doing. It was just that he was obsessed with rubber.

Motivated rather than discouraged, it seems, by serial failures with rubber, Goodyear tried every trick of kitchen-chemistry to solve the problem. He even mixed apple juice with the stuff, in attempts to keep it from melting. In the end, negligence gave him another chance. In his brother's kitchen, Goodyear left a piece of rubber on the stove. The heat singed the outside surface, leaving a protective layer that kept the rubber from melting. Realising that his problem was now solved, Goodyear is credited with inventing vulcanised rubber.

Charles Goodyear had it, and so do all of the other pioneers in Evan Schwartz's book: a rare degree of single-mindedness. Mr Schwartz dissects what it is, other than single-mindedness, that makes his inventors the prolific and successful "ideas" men of their day. His conclusions are somewhat counter-intuitive.

Juice: The Creative Fuel That Drives World-Class Inventors
By Evan I. Schwartz

Harvard Business School Press; 224 pages; $24.95

Buy it at
Amazon.com
Amazon.co.uk

Many people think that being a prolific inventor means being bent on a frantic hunt for solutions. Mr Schwartz argues, rather, that inventors see a world full of problems; the creative answers come in due time, and with the right preparation. In one of his many examples, Mr Schwartz describes Max Levchin, a Ukrainian who as a child of the Soviet Union became obsessed with cryptography, particularly with ways to keep information secret. In the 1990s, Mr Levchin noticed an internet problem, namely, the lack of secure online transactions between individuals. It was arguably his Soviet upbringing that laid the ground for his solution. Mr Levchin went on to establish PayPal, the leading processor of person-to-person payments over the internet.

Yet the right solution needs to be applied to the right situation. It is a lesson illustrated by the story of Thomas Edison and his electric vote recorder. In America, his invention would have streamlined the voting process and quelled legislative confusion, but the idea did not fly. It was, an exasperated congressman told him, "exactly what we do not want! Your invention would not only destroy the only hope the minority would have in influencing legislation, it would deliver them over—bound hand and foot—to the majority." One of the best-known American inventors had failed to recognise who benefits from the status quo.

Mr Schwartz's book is a series of how-to lessons, brought to life by nicely crafted stories of inventions and of the quirky inventors responsible for them. In his examples, he sets the scene so that the reader sees the problem clearly and is then able to arrive at the obvious invention, paragraphs before the author reveals it. The reader feels she could have filed for the patent.

The true stories behind commonly used inventions would have been enough to carry the book. Unfortunately, Mr Schwartz attempts to write a business book of wider, overarching ambition. And his urgent call for more inventions is odd in light of an exponential increase in American patents over the past half-century. Despite these gripes, it is difficult to finish the book and not long for your own Goodyear-sized happy accident.

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By Evan I. Schwartz.
Harvard Business School Press; 224 pages; $24.95

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About sponsorship

Dinah Washington

None finer

Sep 9th 2004
From The Economist print edition

SHE was Queen of the Blues and she brooked no rivals. During a tour of Britain in 1959, Dinah Washington told her audience: “I'm happy to be here, but just remember. There's one heaven, one earth and one queen: Elizabeth is an imposter.” Far from being shocked, her listeners loved it. It was just what they expected from the singer whose first hit had been “Evil Gal Blues”. Throughout her career, Dinah Washington's vocal power was matched by a formidable personality which kept her in the newspaper headlines as much as in the Top 40.

Musically, style was the woman. Like many black American singers, her background was in gospel music: indeed, she was a church soloist at the age of 15. Yet even then, she had her eye on show business, and she translated the ardour of the gospel repertoire into the secular and sexual passion of the blues. Her delivery combined intense feeling with crystal-clear diction so that, as the music poured out, she still seemed in total control. An early critic was struck by her “tart, take-me-or-leave-me sound”, and her vibrant, seductively self-possessed timbre made her a star by the age of 20.

Queen: The Life and Music of Dinah Washington
By Nadine Cohodas

Pantheon Books; 576 pages; $28.50

Buy it at
Amazon.com
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Nadine Cohodas's rich, well-researched biography compellingly charts her subject's rise, and the stormy dramas which attended it. Wilful and volatile, the Queen of the Blues always got what she wanted.

Her determination was a godsend to young musicians she believed in. When she demanded that her record company hire Quincy Jones—then an unknown arranger, now a global entertainment magnate—for her next album, its executives said they preferred “a name”. “Here”, replied the Queen, “is a name for your ass: Dinah Washington, and Quincy Jones is my arranger.” Mr Jones got his break. He also became one of the singer's many lovers, for the Queen got what she wanted romantically as well, at least in the short term. Her string of brief marriages and lovers is a life-long pattern that Ms Cohodas attributes to insecurity and to an inability to be alone.

Yet the impression from this book is not of vulnerability, but of a salty independence. Even in dealing with her public, Dinah Washington imposed her own terms, once shushing a noisy listener with, “Mister, I hope I don't have to call you motherfucker.” Whatever she called them, her fans were entranced by a style that could put its stamp on any material—blues, jazz or pop. She ranged with relish from the double-entendre rudery of “Long John Blues” to the high romance of “What a Difference a Day Made”. And musicians loved her too, despite the imperious moods. They respected her consummate professionalism and an ear so keen that she could, she said, hear grass grow.

Her talent was projected by sheer force of emotional commitment. As she put it: “I lead with my heart all the time.” To some critics, her full-frontal attack was ideal for rhythm and blues, but was less well suited to the tonal and rhythmic subtleties of jazz. Ms Cohodas acknowledges that the singer lacked the suppleness of such divas as Ella Fitzgerald and Sarah Vaughan. Yet even jazz listeners praised what one called “that fine, hard Dinah clarity and impact of sound”.

Ms Cohodas's chronicle derives its interest and authority from such first-hand observations. Generally, the author does not overdo speculation, though she does keep the reader apprised of the racism black Americans—including stars—routinely had to endure. She also highlights the social pressure that the cult of beauty exerted on women, and even on Dinah Washington, who always harboured a sense of physical inferiority. Ms Cohodas believes that an obsession with dieting had something to do with the singer's death in 1963 (she was just 39) from an accidental overdose of prescription drugs. Yet the Dinah

Washington who dominates these pages does not seem at all cut out for the role of victim. Whatever the cost, she was every inch the Queen.

Queen: The Life and Music of Dinah Washington.
By Nadine Cohodas.
Pantheon Books; 576 pages; $28.50

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Obituary

Alastair Morton

Sep 9th 2004
From The Economist print edition

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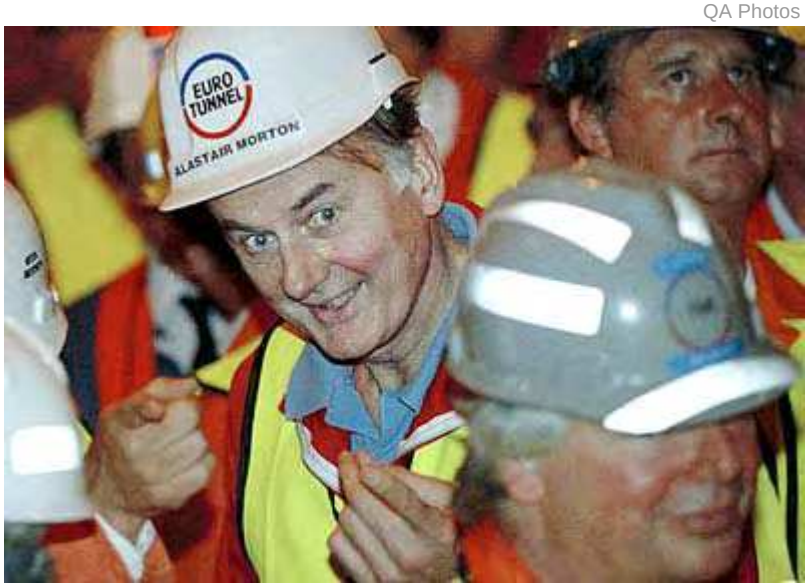

Sir Alastair Morton, tunnel-builder, died on September 1st, aged 66

IT OFTEN seemed that Alastair Morton had been set down in the wrong age and the wrong place. Towering and irascible, with piercing blue eyes and, at one time, a bandit's beard, he should not have been dealing with British civil servants and City types at all. He was really a *voortrekker*, like his South African forebears on his mother's side. Circling the wagons, haranguing the faint-hearted and blasting all obstacles, dead or living, with shot were his chosen modes of operation. All the worse for him, therefore, that he spent his career not with real elephants, but with large white ones dreamed up by pencil-pushing lackeys in Whitehall.

His greatest triumph was the building of the tunnel linking England and France under the English Channel. Or, more accurately, his greatest triumph was to knock together, continuously and painfully, the heads of the bankers and contractors involved until they begged for mercy. This was no mean task, since there were ten contractors and no fewer than 225 banks, all of whom had been granted generous deals by Margaret Thatcher's government.

The tunnel was not an impossible scheme, either technically or geologically. The problem, always, was the attitude of government. When officials had stopped worrying that Napoleon, or Bismarck, or the Kaiser, or Hitler would send their armies straight through by torchlight, they began to fret about the expense. As late as the 1970s, a serious attempt to build the tunnel was abandoned because of cost.

Lady Thatcher's dream-tunnel would not only display Britain's technological pre-eminence. It would also prove the ideological superiority of Toryism by getting private money, alone, to do the job on both sides of the Channel. A multiplicity of lenders would be kept in order by a brand-new company, Eurotunnel, which was given a 65-year monopoly to run the tunnel and the trains. In 1987, when Sir Alastair became its co-chairman, the company was already in chaos, with more than half a million shareholders to satisfy.

He soon lost his temper. So many problems arose with the fitting-out and the special trains that the opening, promised for mid-1993, was ten months late. Sir Alastair pitilessly nagged all the way. As the work overran, the costs soared, from an estimated £4.8 billion ($8.5 billion) to £10 billion. The banks began to murmur of pulling out; Sir Alastair lashed them to lend him more. By 1995 the debt was £8

billion, with interest costs of £700m a year. To this day, Eurotunnel has an albatross of debt around its neck.

When the press mocked, Sir Alastair let fly. Blistering messages were left on their voice-mails. One quaking critic learned that “Where we come from, they shoot bears!” *The Economist*'s man was told, pithily, “Engage brain before spouting words!” The fits did not last; he could be charming later, soothing offenders in his office with sandwiches and Chablis. Only one man, Philip Shelbourne, a sinuous City executive, ever earned his bottomless loathing, which was reciprocated.

Goading the Treasury

The feud with Shelbourne showed Sir Alastair for what he was, an outsider. His father had been an oil engineer, his background Johannesburg, his first job with De Beers in what was then Rhodesia. If he had not so hated apartheid, he might well have stayed in southern Africa. Although he read law at Oxford, he had not otherwise brushed with the British establishment until he met it in the City and in government. He never got used to its arrogant, duplicitious, so-polite ways.

Equally, he could never fathom the innate, fearful conservatism of the British in general. “There'll be trouble if you do that,” was the dour observation of the Sheffield steelmen he met as a member of Harold Wilson's Industrial Reorganisation Corporation, in 1967. The same sullen hopelessness seemed to typify Britain's attitude to the Eurotunnel: though this was the greatest engineering feat of the 20th century, the public wanted neither to pay for it nor to see it from their gardens.

Sir Alastair defied them as an optimist and, in his secret heart, a socialist. He believed absolutely in progress and enlightenment and thought, as his French partners did, that the state should lead the way. As managing director of the British National Oil Corporation in 1980, he fought furiously to resist its privatisation. As co-chairman of Eurotunnel, he was disgusted that the Treasury would not underwrite a high-speed rail link between London and Folkestone. Instead, for many years, the Eurostar meandered down to Tonbridge at the speed of an ambling cow.

His last jobs were no easier. In 1993 he was picked to chair the Treasury's private finance panel, which sought private capital for transport projects; in 1999 he became the first chairman of the Strategic Rail Authority (SRA), set up to rescue Britain's privatised railways. In both he found himself straddling that old, wide divide between public schemes and private cash. When the men at the Treasury, battered from past encounters, were told that the SRA's spending plans for the next decade were not £27 billion, but £40 billion, Sir Alastair's days there were plainly numbered. He was not sorry. “The Treasury”, he barked, “has done more damage to this country than the Luftwaffe ever did.”

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Overview

Sep 9th 2004
From The Economist print edition

America's non-farm payrolls rose by 144,000 jobs in August. July's figures were revised up to show 73,000 new jobs, more than double the earlier estimate. Even so, job growth is still well below expectations. The unemployment rate edged down to 5.4% in August from 5.5% in July and 6.1% a year ago. American retail sales grew by 5.5% in the year to July.

In the **euro area**, retail sales grew by 1.1% in the year to July. Retail sales grew by 3.0% in **Spain** and by 2.1% in **France** during the same period. Indicators of consumer and business confidence rose in August in **Italy**, but retail sales fell by 0.8% in the year to June.

German industrial production rose by 1.6% in July, the biggest monthly gain since October. For the year to July, industrial production rose by 2.2%. It also rose in **Austria**, by 4.3% in the year to June. Production in **the Netherlands**, however, increased by a mere 0.2% in the year to July.

Industrial output was also weak in **Britain**, falling by 0.3% in August, which meant that the rise in the year to August was only 0.1%.

Switzerland's unemployment rate rose to 3.7% in August from 3.6% in July.

Canada's central bank put up interest rates by one-quarter of a percentage point to 2.25%, the first rise in 17 months.

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Output, demand and jobs

Sep 9th 2004
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 4.1	Q2	+ 2.5	+ 3.6	+ 3.3	– 1.1	Q1	+ 7.9	Q2	5.7	Aug	6.0
Austria	+ 0.5	Q1	+ 0.8	+ 1.6	+ 2.1	+ 4.3	Jun	– 4.7	May	4.2	Jul	4.5
Belgium	+ 2.7	Q2	+ 3.0	+ 2.4	+ 2.1	+ 1.5	Jul	+ 4.4	Jun	13.2	Aug†	13.3
Britain	+ 3.7	Q2	+ 3.8	+ 3.4	+ 2.7	+ 0.1	Jul	+ 6.6	Jul	4.8	Jun††	5.0
Canada	+ 3.0	Q2	+ 4.3	+ 3.0	+ 3.4	+ 5.0	Jun	+ 3.1	Jun	7.2	Jul	7.7
Denmark	+ 2.5	Q2	+ 0.9	+ 2.1	+ 2.3	+ 0.7	Jul	+ 4.9	Jul	6.2	Jul	6.0
France	+ 2.8	Q2	+ 3.2	+ 2.4	+ 2.2	+ 2.7	Jun	+ 2.1	Jul	9.8	Jul	9.8
Germany	+ 2.0	Q2	+ 1.9	+ 1.5	+ 1.7	+ 2.2	Jul	nil	Jul	10.6	Aug§	10.6
Italy	+ 1.1	Q2	+ 1.0	+ 1.2	+ 1.7	– 0.1	Jun	– 0.8	Jun	8.5	Jan	8.9
Japan	+ 4.4	Q2	+ 1.7	+ 4.5	+ 2.3	+ 5.9	Jul	– 2.9	Jun	4.9	Jul	5.3
Netherlands	+ 1.0	Q2	– 0.8	+ 1.3	+ 1.7	+ 0.2	Jul	– 0.7	Jun‡	6.3	Jul**	5.3
Spain	+ 2.6	Q2	+ 2.0	+ 2.8	+ 2.8	+ 0.4	Jul	+ 3.0	Jul	11.0	Jul	11.3
Sweden	+ 3.4	Q2	+ 3.8	+ 3.0	+ 2.7	+ 3.4	Jun	+ 3.2	Jul	5.6	Jul†	5.0
Switzerland	+ 1.5	Q1	+ 1.6	+ 1.9	+ 2.0	+ 4.5	Q1	+ 6.2	Jun	3.7	Aug†	3.6
United States	+ 4.7	Q2	+ 2.8	+ 4.3	+ 3.4	+ 4.9	Jul	+ 5.5	Jul	5.4	Aug	6.1
Euro area	+ 2.0	Q2	+ 2.1	+ 1.8	+ 2.0	+ 2.7	Jun	+ 1.1	Jul	9.0	Jul	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.8	Q2	+ 4.0	na	na	+ 7.8	Jul	+ 3.4	Jun	7.8	Jul†	7.9
Greece	+ 3.9	Q2	– 0.6	na	na	– 1.5	Jun	+ 5.5	Jun	na		na
Iceland	+ 4.9	Q1	na	na	na	na		na		3.1	Jun†	3.2
Ireland	+ 6.1	Q1	na	na	na	+ 4.2	Jun	+ 3.3	Jun	4.3	Aug	4.7
Luxembourg	+ 2.1	2003	na	na	na	– 1.2	Dec	+ 3.4	Apr	4.0	Jul	3.6
New Zealand	+ 4.4	Q1	+ 8.1	na	na	+ 5.5	Q1	+ 6.8	Q2	4.0	Q2	4.7
Norway	+ 4.1	Q2	+ 5.0	na	na	+ 3.5	Jul	+ 2.0	Jul	4.6	Q2	4.7
Portugal	+ 1.5	Q2	+ 4.7	na	na	– 3.4	Jul	+ 2.8	Jul	6.3	Q2†	6.1

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Apr-Jun; claimant count rate 2.7% in Jul. §EU harmonised rate 9.9% in Jul. **May-Jul.

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Prices and wages

Sep 9th 2004
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2004	2005	latest		year ago	latest		year ago
Australia	+ 2.5	Q2	+ 2.7	+ 2.4	+ 2.6	+ 2.8	Q2	+ 0.2	+ 2.9	Q2	+ 5.5
Austria	+ 2.3	Jul	+ 1.1	+ 1.6	+ 1.5	+ 6.3	Aug	+ 1.3	+ 1.9	Jul	+ 2.3
Belgium	+ 2.3	Aug	+ 1.8	+ 1.9	+ 1.6	+ 5.3	Jul	– 1.3	+ 2.3	Apr	+ 1.7
Britain	+ 1.4	Jul*	+ 1.3	+ 1.5	+ 1.8	+ 2.5	Jul	+ 1.3	+ 4.4	Jun†	+ 3.0
Canada	+ 2.3	Jul	+ 2.2	+ 2.0	+ 2.2	+ 5.0	Jul	– 1.6	+ 3.2	Jun	+ 3.8
Denmark	+ 1.3	Jul	+ 1.9	+ 1.2	+ 1.8	+ 2.7	Jul	– 0.1	+ 3.3	Q1	+ 3.9
France	+ 2.3	Jul	+ 1.9	+ 2.2	+ 1.6	+ 2.2	Jun	+ 0.9	+ 2.8	Q1	+ 2.9
Germany	+ 2.0	Aug	+ 1.1	+ 1.7	+ 1.3	+ 3.9	Jul	nil	+ 1.4	Jun	+ 2.0
Italy	+ 2.3	Aug	+ 2.8	+ 2.3	+ 2.1	+ 3.3	Jul	+ 1.3	+ 3.2	Jul	+ 2.1
Japan	– 0.1	Jul	– 0.2	– 0.1	+ 0.2	+ 1.6	Jul	– 0.8	+ 2.0	Jul	+ 3.6
Netherlands	+ 1.1	Aug	+ 2.1	+ 1.4	+ 1.4	+ 4.9	Jul	+ 0.2	+ 1.2	Aug	+ 2.5
Spain	+ 3.4	Jul	+ 2.8	+ 2.9	+ 2.7	+ 4.1	Jul	+ 1.1	+ 3.2	Q1	+ 4.9
Sweden	+ 0.7	Jul	+ 1.8	+ 0.8	+ 1.5	+ 1.9	Jul	– 1.5	+ 1.1	Jun	+ 3.5
Switzerland	+ 1.0	Aug	+ 0.5	+ 0.7	+ 1.1	+ 1.3	Jul	– 0.7	+ 1.4	2003	+ 1.8
United States	+ 3.0	Jul	+ 2.1	+ 2.7	+ 2.4	+ 4.0	Jul	+ 2.9	+ 2.3	Aug	+ 2.6
Euro area	+ 2.3	Aug	+ 2.1	+ 2.1	+ 1.7	+ 2.8	Jul	+ 1.1	+ 2.5	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.3	Jul	+ 0.4	na	na	+ 1.5	Jul	– 0.4	+ 3.5	Q2	+ 4.4
Greece	+ 2.9	Jul	+ 3.6	na	na	+ 2.3	Jul	+ 2.9	na		na
Iceland	+ 3.7	Aug	+ 2.0	na	na	+ 5.2	Jul	+ 3.3	+ 5.1	Jul	+ 5.7
Ireland	+ 2.7	Jul	+ 3.1	na	na	– 0.7	Jul	– 8.2	+ 6.1	Q4	+ 6.4
Luxembourg	+ 2.4	Jul	+ 1.6	na	na	+ 9.0	Jun	+ 2.3	– 0.4	Dec	+ 0.7
New Zealand	+ 2.4	Q2	+ 1.5	na	na	+ 1.5	Q2	– 1.9	+ 2.3	Q2	+ 2.3
Norway	+ 1.5	Jul	+ 1.5	na	na	+13.6	Jul	+ 6.3	+ 4.6	Q1	+ 5.3
Portugal	+ 2.8	Jul	+ 2.9	na	na	+ 4.2	Jul	– 0.4	+ 1.3	May	– 1.9

*New series. RPI inflation rate 3.0% in Jul. †Apr-Jun.

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Economic forecasts

Sep 9th 2004
From The Economist print edition

The Economist poll of forecasters, September averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2004	2005	2004	2005	2004	2005	2004	2005
Australia	2.9/4.5	2.7/3.8	3.6 (3.5)	3.3	2.4 (2.5)	2.6 (2.5)	–5.6(–5.4)	–4.9 (–3.9)
Austria	1.3/2.0	1.7/2.4	1.6	2.1	1.6	1.5	–0.4	–0.5 (–0.2)
Belgium	1.7/2.7	1.3/2.5	2.4 (2.2)	2.1	1.9 (1.8)	1.6	3.2 (3.5)	3.5 (3.4)
Britain	3.1/3.6	1.9/3.7	3.4 (3.3)	2.7	1.5	1.8	–2.3(–2.4)	–2.3 (–2.0)
Canada	2.5/3.3	3.0/4.3	3.0 (2.9)	3.4	2.0	2.2 (2.1)	2.4 (2.2)	2.1 (1.6)
Denmark	1.9/2.4	1.8/2.7	2.1 (2.0)	2.3 (2.2)	1.2 (1.3)	1.8 (1.9)	2.7	2.6
France	2.1/2.7	1.5/2.5	2.4 (2.2)	2.2	2.2 (2.1)	1.6 (1.7)	0.5 (0.7)	0.6 (0.8)
Germany	1.2/1.8	1.1/2.4	1.5	1.7	1.7 (1.6)	1.3 (1.2)	2.8	2.8 (2.6)
Italy	1.1/1.3	1.2/2.1	1.2	1.7 (1.8)	2.3	2.1	–1.0	–1.0 (–0.8)
Japan	4.1/4.8	1.3/3.5	4.5	2.3	–0.1	0.2 (0.3)	3.5	3.6
Netherlands	1.0/1.9	1.2/2.5	1.3	1.7 (1.8)	1.4 (1.5)	1.4	2.7 (2.8)	2.9 (2.8)
Spain	2.5/3.1	2.6/3.0	2.8	2.8	2.9 (2.8)	2.7 (2.6)	–2.8(–2.9)	–2.9 (–2.6)
Sweden	2.4/3.5	1.9/3.4	3.0 (2.8)	2.7 (2.6)	0.8	1.5 (1.6)	6.3 (6.4)	6.1 (5.8)
Switzerland	1.6/2.1	1.3/2.3	1.9	2.0 (2.1)	0.7	1.1	10.9(10.5)	10.6 (10.2)
United States	4.2/4.5	3.0/4.0	4.3 (4.5)	3.4 (3.5)	2.7 (2.6)	2.4 (2.3)	–5.1(–5.2)	–5.0 (–4.4)
Euro area	1.6/2.0	1.5/2.6	1.8	2.0	2.1 (2.0)	1.7	0.5	0.5 (0.6)

Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

Every month, *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances for 15 countries and for the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. Our panel has become less optimistic about the outlook for the American economy. It has trimmed its forecasts for growth in 2004 and 2005 and now expects inflation to be a bit higher in both years. The current-account deficit will be 5.0% of GDP in 2005, up from 4.4% in August. By contrast, the outlook for several European countries has improved. France is now forecast to grow by 2.4% in 2004, up from 2.2% last month. The lower forecast for American GDP growth in 2004 means that Japan is now tipped to head this year's growth table.

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Money and interest rates

Sep 9th 2004
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Sep 8th 2004)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.5	+12.0	Jul	5.43	4.88	5.22	5.57	5.50	6.27
Britain	+ 5.6	+ 8.8	Jul	4.91	3.63	4.82	4.96	4.65	5.72
Canada	+10.8	+ 7.4	Jul	2.32	2.65	3.14	4.66	4.75	6.09
Denmark	+ 8.4	+10.3	Jul	2.25	2.30	2.91	4.22	4.40	5.46
Japan	+ 3.8	+ 1.9	Aug	0.02	0.01	0.16	1.62	1.58	1.66
Sweden	+ 1.5	+ 2.3	Jul	2.01	2.69	2.89	4.40	4.73	2.96
Switzerland	+ 3.8	+ 3.0	Jul	0.65	0.26	1.06	2.66	2.75	2.37
United States	+ 4.0	+ 4.8	Jul	1.78	1.03	2.48	4.16	4.27	5.74
Euro area†	+10.1	+ 5.5	Jul	2.12	2.15	2.64	4.10	4.25	3.93

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.95%, Japan No. 263 1.62%. Central bank rates: US fed funds 1.50%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Commerzbank, Danske Bank, J.P. Morgan Chase, Royal Bank of Canada, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Sep 9th 2004
From The Economist print edition

1995=100

	Aug 31st	Sep 7th*	% change on one month	% change on one year
Dollar index				
All items	90.2	88.1	– 1.1	+ 8.8
Food	84.0	81.7	– 1.3	+ 0.8
Industrials				
All	98.5	96.8	– 0.8	+19.6
Nfa†	93.3	92.9	+ 1.1	+ 7.6
Metals	102.9	100.2	– 2.3	+31.2
Sterling index				
All items	79.1	78.4	+ 2.6	– 2.5
Euro index				
All items	97.6	96.0	+ 0.8	+ 0.7
Yen index				
All items	105.3	102.6	– 2.3	+ 2.2
Gold				
$ per oz	410.23	399.00	– 0.2	+ 4.7
West Texas Intermediate				
$ per barrel	42.15	43.23	– 2.8	+48.3

* Provisional. † Non-food agriculturals.

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Stockmarkets

Sep 9th 2004
From The Economist print edition

Market indices

	Sep 8th	2004 high	2004 low	% change on one week	% change on record high	% change on Dec 31st 2003 in local currency	% change on Dec 31st 2003 in $ terms
Australia (All Ordinaries)	3,595.9	3,595.9	3,274.9	+ 0.4	nil	+ 8.8	+ 0.2
Austria (ATX)	2,018.2	2,047.0	1,568.9	+ 0.8	– 1.4	+30.6	+25.6
Belgium (Bel 20)	2,631.7	2,631.7	2,244.2	+ 1.8	–28.5	+17.3	+12.8
Britain (FTSE 100)	4,558.4	4,575.7	4,287.0	+ 1.3	–34.2	+ 1.8	+ 1.4
Canada (Toronto Composite)	8,354.8	8,898.8	8,123.5	– 0.7	–26.6	+ 1.6	+ 1.7
Denmark (KBX)	244.5	244.7	219.0	+ 1.4	–19.0	+14.5	+10.2
France (SBF 250)	2,507.8	2,594.4	2,386.1	+ 1.5	–42.9	+ 4.0	nil
(CAC 40)	3,677.6	3,811.4	3,465.3	+ 1.8	–46.9	+ 3.4	– 0.6
Germany (DAX)	3,884.2	4,151.8	3,647.0	+ 1.7	–51.8	– 2.0	– 5.8
Italy (BCI)	1,307.0	1,340.3	1,239.5	+ 1.7	–40.1	+ 4.0	nil
Japan (Nikkei 225)	11,279.2	12,163.9	10,365.4	+ 1.4	–71.0	+ 5.6	+ 3.6
(Topix)	1,144.1	1,217.9	1,022.6	+ 0.7	–60.3	+ 9.6	+ 7.5
Netherlands (AEX)	331.3	364.8	310.7	+ 1.8	–52.8	– 1.9	– 5.7
Spain (Madrid SE)	854.9	881.7	804.4	+ 1.8	–25.4	+ 5.8	+ 1.7
Sweden (Affarsvarlden Gen)	203.9	218.1	188.5	+ 0.4	–49.1	+ 8.2	+ 3.7
Switzerland (Swiss Market)	5,556.5	5,934.4	5,309.8	+ 1.6	–33.9	+ 1.3	– 1.2
United States (DJIA)	10,313.4	10,737.7	9,814.6	+ 1.4	–12.0	– 1.3	– 1.3
(S&P 500)	1,116.3	1,157.8	1,063.2	+ 0.9	–26.9	+ 0.4	+ 0.4
(NASDAQ Comp)	1,850.6	2,153.8	1,752.5	nil	–63.3	– 7.6	– 7.6
Europe (FTSE Eurotop 300)*	991.4	1,026.2	940.9	+ 1.5	–41.9	+ 3.5	– 0.5
Euro area (FTSE Ebloc 100)*	835.4	888.3	787.2	+ 1.8	–46.1	+ 0.5	– 3.4
World (MSCI)†	1,043.6	1,085.8	997.0	+ 0.9	–28.0	+ 0.7	+ 0.7
World bond market (Citigroup)‡	603.7	619.5	575.1	+ 0.5	– 2.6	nil	nil

*In euro terms. †Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms.
‡Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Sep 9th 2004
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current account $bn latest 12 mths	Current account The Economist poll % of GDP, forecast 2004	Current account The Economist poll % of GDP, forecast 2005	Exchange rate trade-weighted† 1990=100 Sep 8th	Exchange rate trade-weighted† 1990=100 year ago	Currency units per $ Sep 8th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2004‡
Australia	− 16.8 Jul	− 34.2 Q2	− 5.6	− 4.9	82.3	82.9	1.44	1.52	2.57	1.75	1.32	0.5
Austria	− 0.1 May	− 1.5 Jun	− 0.4	− 0.5	103.0§	103.0	0.82	0.89	1.47	–	0.75	-1.3
Belgium	+ 20.8 Jun	+ 12.2 Mar	+ 3.2	+ 3.5	103.1§	103.0	0.82	0.89	1.47	–	0.75	-0.2
Britain	− 97.5 Jul	− 39.2 Q1	− 2.3	− 2.3	103.3	98.7	0.56	0.63	–	0.68	0.51	-2.9
Canada	+ 50.0 Jun	+ 23.8 Q2	+ 2.4	+ 2.1	89.4	85.8	1.29	1.37	2.30	1.57	1.18	1.2
Denmark	+ 10.2 Jun	+ 7.1 Jun	+ 2.7	+ 2.6	106.4	106.4	6.13	6.62	10.9	7.44	5.61	0.9
France	+ 3.7 Jun	+ 0.7 Jun	+ 0.5	+ 0.6	106.5§	106.4	0.82	0.89	1.47	–	0.75	-3.8
Germany	+186.4 Jul	+ 93.7 Jun	+ 2.8	+ 2.8	104.3§	104.1	0.82	0.89	1.47	–	0.75	-3.7
Italy	+ 2.5 Jun	− 14.5 Jun	− 1.0	− 1.0	76.0§	75.9	0.82	0.89	1.47	–	0.75	-3.1
Japan	+128.9 Jun	+165.8 Jul	+ 3.5	+ 3.6	135.1	131.0	109	117	195	133	–	-7.1
Netherlands	+ 33.5 Jun	+ 20.7 Q2	+ 2.7	+ 2.9	102.6§	102.5	0.82	0.89	1.47	–	0.75	-3.1
Spain	− 62.4 Jun	− 30.0 May	− 2.8	− 2.9	77.1§	77.1	0.82	0.89	1.47	–	0.75	0.3
Sweden	+ 22.7 Jul	+ 23.4 Q2	+ 6.3	+ 6.1	81.4	80.7	7.51	8.15	13.4	9.11	6.87	0.2
Switzerland	+ 8.3 Jul	+ 37.5 Q1	+10.9	+10.6	112.7	110.9	1.27	1.39	2.26	1.54	1.16	-1.6
United States	−589.5 Jun	−537.3 Q1	− 5.1	− 5.0	96.5	104.2	–	–	1.78	1.21	0.92	-4.7
Euro area	+110.8 Jun	+ 59.7 Jun	+ 0.5	+ 0.5	90.4	89.5	0.82	0.89	1.47	–	0.75	-2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 14.5 Jun	+ 10.6 Jun	na	na	82.2§	82.0	0.82	0.89	1.46	–	0.75	1.6
Greece	− 27.8 Jun	− 9.3 Jun	na	na	59.6§	59.6	0.82	0.89	1.46	–	0.75	-3.2
Iceland	− 0.4 Jul	− 0.7 Q1	na	na	95.2**	99.1	72.2	80.2	129	87.6	66.1	0.2
Ireland	+ 41.8 Jun	− 2.1 Q1	na	na	94.2§	94.7	0.82	0.89	1.46	–	0.75	-0.5
Luxembourg	− 3.9 Jun	+ 3.2 Q1	na	na	103.1§	103.0	0.82	0.89	1.46	–	0.75	-1.8
New Zealand	− 2.1 Jul	− 3.4 Q1	na	na	103.8	99.2	1.52	1.72	2.71	1.84	1.39	2.9
Norway	+ 30.0 Jul	+ 30.1 Jun	na	na	96.4	96.6	6.86	7.40	12.2	8.32	6.28	10.4
Portugal	− 15.8 May	− 9.3 Jun	na	na	93.6**	93.8	0.82	0.89	1.46	–	0.75	-3.8

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, July average. ‡OECD forecast. **IMF, May average.

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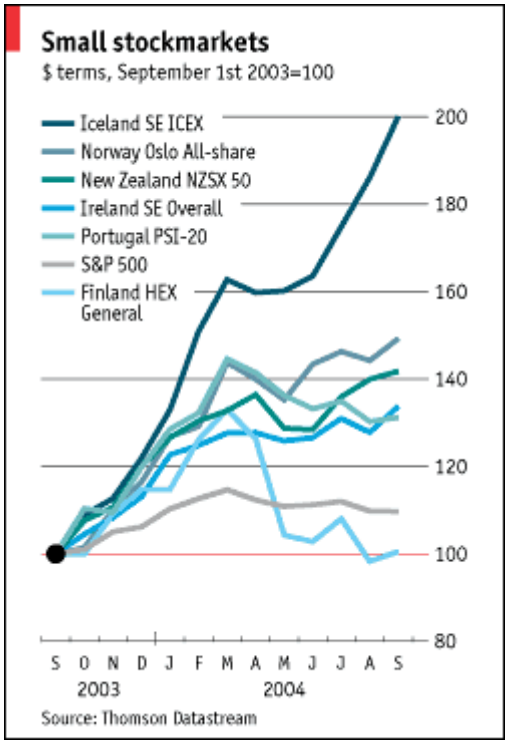
About sponsorship

Small stockmarkets

Sep 9th 2004
From The Economist print edition



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Overview

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From The Economist print edition

Thailand's economy grew by 6.3% in the year to the second quarter, down slightly from 6.6% in the year to the first quarter. In the year to July, industrial-production growth in **Malaysia** slowed to 9.9%.

Consumer-price inflation ran at 6.3% in the **Philippines** in the year to August.

Poland's economy grew by 6.1% in the year to the second quarter.

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Emerging stockmarkets

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Since the beginning of 2002, emerging stockmarkets have risen by around 40%, according to an index published by Morgan Stanley. Over the same period, America's S&P 500 index has lost 4%. Emerging stockmarkets did particularly well in 2003. Russia's stockmarket capitalisation has risen from $140 billion in August 2003 to $250 billion last month. During the same period, the value of South African shares rose from around $210 billion to almost $330 billion.

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Economy

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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.6	Q2	+15.5	Jul	+ 5.3	Jul	+15.7	Jul	+45.9	2003	483.0	Jul
Hong Kong	+12.1	Q2	+ 1.8	Q1	+ 0.9	Jul	−13.4	Jul	+14.8	Q1	118.5	Aug
India	+ 8.2	Q1	+ 7.3	Jun	+ 3.2	Jul	−18.1	Jul	+ 8.7	Q1	112.1	Aug
Indonesia	+ 4.3	Q2	+15.0	Jun	+ 6.7	Aug	+24.8	Jul	+ 3.9	Q2	33.6	Jul
Malaysia	+ 8.0	Q2	+ 9.9	Jul	+ 1.3	Jul	+20.1	Jul	+13.0	Q1	54.5	Aug
Philippines	+ 6.2	Q2	+ 2.7	Jun	+ 6.3	Aug	− 1.5	Jun	+ 3.9	Mar	12.7	Aug
Singapore	+12.5	Q2	+19.0	Jul	+ 1.6	Jul	+15.7	Jul	+28.4	Q2	101.3	Aug
South Korea	+ 5.5	Q2	+12.8	Jul	+ 4.8	Aug	+29.2	Aug	+27.5	Jul	167.9	Jul
Taiwan	+ 7.7	Q2	+ 9.5	Jul	+ 2.5	Aug	+11.6	Aug	+25.8	Q2	231.6	Aug
Thailand	+ 6.3	Q2	+ 9.3	Jul	+ 3.1	Aug	+ 1.8	Jul	+ 7.2	Jul	42.4	Jul
Argentina	+10.7	Q1	+ 8.3	Jul	+ 5.2	Aug	+12.8	Jul	+ 6.1	Q1	18.1	Jul
Brazil	+ 5.7	Q2	+13.0	Jun	+ 6.8	Jul	+31.7	Aug	+ 9.2	Jul	49.8	Jun
Chile	+ 5.1	Q2	+ 5.8	Jul	+ 1.6	Aug	+ 6.7	Jul	+ 1.2	Q2	15.9	Jun
Colombia	+ 4.3	Q2	+11.7	Jun	+ 5.9	Aug	+ 0.1	Jun	− 1.6	Q1	11.6	Jun
Mexico	+ 3.9	Q2	+ 5.2	Jun	+ 4.5	Jul	− 5.7	Jul	− 6.7	Q2	60.4	Jun
Peru	+ 3.0	Jun	+ 7.5	Jun	+ 4.6	Aug	+ 1.8	Jul	− 0.7	Q2	10.3	Jul
Venezuela	+13.6	Q2	+32.2	Jun	+21.9	Aug	+20.3	Q2	+14.0	Q2	18.9	May
Egypt	+ 3.1	2003†	+ 2.6	2003†	+16.5	May‡	− 6.7	Q1	+ 3.9	Q1	13.3	May
Israel	+ 3.0	Q2	+11.0	Jun	+ 0.5	Jul	− 5.3	Jul	+ 0.3	Q1	26.1	Aug
South Africa	+ 2.5	Q2	+ 5.5	Jul	+ 1.6	Jul	− 0.2	Jul	− 2.0	Q1	10.4	Aug
Turkey	+10.1	Q1	+12.8	Jul	+10.0	Aug	−30.3	Jul	−11.6	Jul	32.4	Jul
Czech Republic	+ 3.1	Q1	+11.0	Jul	+ 3.4	Aug	− 2.1	Jul	− 6.2	Q2	26.3	Jul
Hungary	+ 4.0	Q2	+ 7.6	Jul	+ 7.2	Jul	− 3.6	Apr	− 8.4	Apr	12.8	Jul
Poland	+ 6.1	Q2	+ 6.0	Jul	+ 4.6	Jul	− 5.5	Jun	− 3.6	Jun	34.6	Jul
Russia	+ 7.4	Q1	+ 4.4	Jul	+10.4	Jul	+69.5	Jul	+38.4	Q2	84.9	Aug
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 6.0	Q2	+ 6.3	Jul	+ 4.0	Aug	− 2.5	Jun	− 1.2	Q1	1.3	Jun
Latvia	+ 8.8	Q1	+ 7.8	Jul	+ 6.7	Jul	− 2.5	Jun	− 1.4	Jun	1.5	Jun
Lithuania	+ 6.9	Q2	na		+ 2.2	Aug	− 3.0	Jun	− 1.5	Q1	3.2	Jun
Slovakia	+ 5.5	Q1	+ 0.7	Jul	+ 7.2	Aug	− 0.7	Jun	− 0.4	May	11.9	Jun
Slovenia	+ 3.7	Q1	+ 3.0	Jul	+ 3.7	Aug	− 0.9	Jun	− 0.2	Jun	8.2	May
Pakistan	+ 5.1	2003†	+ 3.3	Mar	+ 9.3	Jul	− 3.7	Aug	+ 1.8	Q2	11.2	Jun
Saudi Arabia	+ 7.2	2003	na		+ 0.4	May	+61.2	2003	+29.7	2003	22.2	Aug

*Excluding gold, except Singapore; IMF definition. †Year ending June. ‡New series, % change Jan-May annualised.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

Sep 9th 2004
From The Economist print edition

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Sep 8th		Dec 31st 2003	
	Sep 8th	year ago	Sep 8th	% p.a.		one week	in local currency	in $ terms
China	8.28	8.28	14.8	3.60	1,373.4	−0.9	− 12.5	− 12.5
Hong Kong	7.80	7.80	13.9	1.06	13,050.0	+0.2	+ 3.8	+ 3.3
India	46.3	45.7	82.6	4.69	5,298.2	+1.7	− 9.3	− 10.6
Indonesia	9,305	8,425	16,591	7.49	789.1	+1.8	+ 14.1	+ 3.2
Malaysia	3.80	3.80	6.78	2.87	850.1	+2.6	+ 7.1	+ 7.1
Philippines	56.1	54.9	99.9	7.38	1,728.5	+8.5	+ 19.8	+ 18.7
Singapore	1.70	1.75	3.03	1.31	1,959.1	+1.5	+ 11.0	+ 11.1
South Korea	1,149	1,170	2,049	3.51	815.9	−0.2	+ 0.6	+ 4.4
Taiwan	33.9	34.1	60.4	1.10	5,846.0	−0.2	− 0.8	− 0.5
Thailand	41.6	40.4	74.2	1.72	630.2	+0.2	− 18.4	− 22.3
Argentina	3.00	2.93	5.34	5.63	986.7	+2.5	− 7.9	− 9.9
Brazil	2.90	2.91	5.17	15.92	22,534.3	+0.1	+ 1.3	+ 0.8
Chile	621	681	1,107	1.68	8,148.6	−1.1	+ 11.1	+ 6.0
Colombia	2,535	2,823	4,520	7.80	3,373.6	+7.5	+ 44.6	+ 58.5
Mexico	11.5	10.9	20.6	7.32	10,538.0	+2.0	+ 19.8	+ 16.6
Peru	3.36	3.48	6.00	2.73	2,872.6	+1.0	+ 18.0	+ 21.5
Venezuela	2,605§	1,598	4,645	13.30	29,138.4	+6.5	+ 31.2	+ 43.6
Egypt	6.24	6.15	11.13	10.73	18,039.7	+4.4	+ 55.0	+ 53.2
Israel	4.51	4.48	8.04	1.00	558.7	+2.1	+ 4.5	+ 1.9
South Africa	6.65	7.40	11.9	7.50	11,183.7	+0.3	+ 7.7	+ 8.0
Turkey	1,498,000	1,388,000	2,670,934	24.18	21,468.3	+4.7	+ 15.3	+ 8.1
Czech Republic	26.2	29.3	46.7	2.67	837.7	+2.5	+ 27.1	+ 24.7
Hungary	205	229	366	11.02	12,012.3	−1.9	+ 28.1	+ 29.3
Poland	3.62	3.97	6.45	7.10	24,953.9	+2.7	+ 19.9	+ 24.0
Russia	29.2	30.6	52.1	13.00	596.0‡	+2.1	+ 5.0	+ 5.1
EMF (MSCI)*	1.00	1.00	1.78	na	445.6	+0.5	+ 0.6	+ 0.6
EMBI+†	1.00	1.00	1.78	na	309.8	+0.5	+ 5.1	+ 5.1

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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